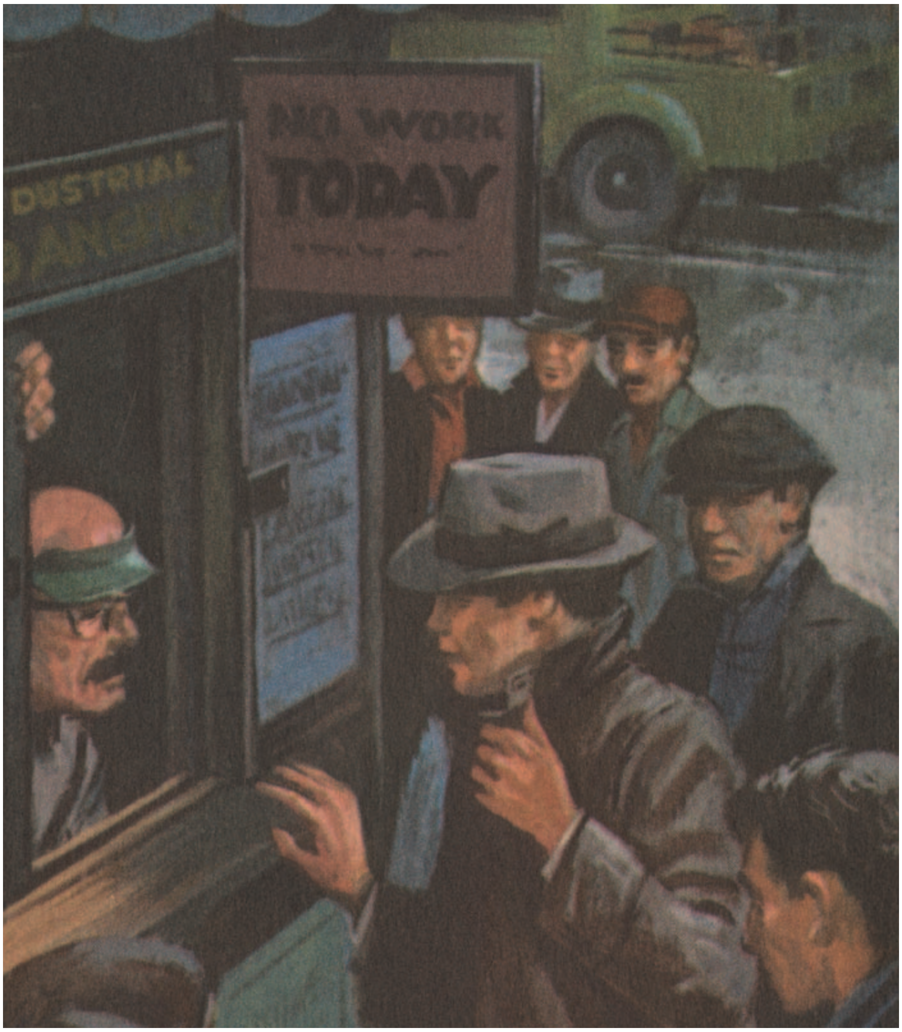
Financial History

The magazine of the Museum of American Finance



FDR, La Guardia and New York During the Great Depression

The Rise and Fall of Richard Whitney

The Colonial Public Lottery

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FINANCIAL HISTORY

The magazine of the Museum of American Finance

in association with the Smithsonian Institution

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Museum Sets Daily Attendance Record and Participates in Financial Literacy Program with NFL Players

Message to Members

David J. Cowen | President and CEO

In the last issue of *Financial History*, I mentioned it is our dream to make admission to the Museum free, as our attendance numbers generally double when there is no charge. The past three months have proven that statistic to be incorrect. We have learned that when we are consistently open for free the word gets out, and our Saturday attendance numbers have quadrupled since we instituted the free Saturday program, sponsored by Southport Lane, in May. On a recent Saturday we set a single day attendance record, with more than 500 visitors. Building on the success of that program, another firm, R.W. Pressprich, has underwritten free admission for students every weekday this summer. We thank our newest board member, Ed Rappa, CEO of Pressprich, for enabling students of all ages to come and see the value of finance to the building of America.

Another recent highlight of our financial literacy efforts came when seven current and former NFL players toured the Museum and spoke with middle school students from Bloomfield, NJ about the value of education and the importance of developing personal finance skills. The players, which included Pro-Bowlers and Super Bowl winners, are enrolled in an executive MBA program, called STAR EMBA, at the George Washington University School of Business.

In June, we hosted the leadership of museums from 12 countries for the inaugural meeting of the International Federation of Finance Museums (*see article, page 5*). The federation, the first of its kind for finance museums, will focus on financial literacy and best practices among the member museums. The cutting edge research in financial literacy is coming out of the Global Financial Literacy Excellence Center in Washington, led by Professor Annamaria Lusardi. At the inaugural meeting in June, Anna and I were selected as co-chairs of the organization, and we look forward our next meeting in China in 2014.

On July 12, we honored the patron saint of the Museum, Alexander Hamilton, on the anniversary of his death with a graveside wreath ceremony, followed by a talk inside Trinity Church by renowned historian and author Tom Fleming. For 25 years, our founder, John Herzog, has been leading this tradition, and for the past two years we have partnered on the event with Rand Scholet of the Alexander Hamilton Awareness Society. The event included a message from the Prime Minister of Nevis, where Hamilton was born. John and his wife, Diana, recently visited Nevis, and a video of John's speech can be found on the news page of the Museum's website.

On September 25, we will open our exhibit on the Centennial of the Federal Reserve Bank. This will be the largest exhibit in the Museum's history, and it will encompass three galleries, as well as the theater. Our curatorial team, lead by Maura Ferguson and Becky Laughner, have been working on this exhibit with the New York Fed, as well as our chairman, Dr. Richard Sylla, and Rutgers professor and banking expert Dr. Eugene White. This interactive and innovative exhibit will be on view for one year, and it will illuminate one of the least understood aspects of American finance.

Lastly, we have had a busy spring and summer with third party rentals of the Museum spaces. Our building has been showcased on television shows and motion pictures, and it has been the venue for launch parties, weddings and corporate events. We encourage all of our readers to consider hosting an event at the Museum. Please contact Arturo Gomez with inquiries at agomez@moaf.org. **$**

Photo: Elsa Ruiz

NFL players from the STAR EMBA program with the Title 1 students they taught at the Museum.

JUL 1 1934 The US Securities & Exchange Commission (SEC) officially begins its business of regulating the nation's financial markets.

JUL 14 1862 Congress establishes the first pension system, paying up to $8 a month to injured or disabled Union soldiers or their heirs.

Finance Museums Throughout the World Unite to Promote Financial Literacy Globally

On June 19, the leadership of finance, saving and money museums from around the world gathered at the Museum of American Finance for the first meeting of the International Federation of Finance Museums (IFFM). The goal of the IFFM is to provide a framework for greater collaboration among finance museums, facilitating the sharing of exhibits, the exchange of scholarship and scholarly research, and the interchange of information and knowledge.

According to Annamaria Lusardi, Academic Director of the Global Financial Literacy Excellence Center at the George Washington School of Business, financial literacy is critical to fully participate in today's society.

"Just as it was not possible to live in an industrialized society without literacy — the ability to read and write — so it is not possible to live in today's world without being financially literate," said Lusardi. "Finance museums have the potential to elevate the importance of financial literacy worldwide."

The IFFM was conceived by the leadership of the Chinese Museum of Finance, the Museum of American Finance, the Museum of Saving in Italy and the Global Financial Literacy Excellence Center. Representatives of finance museums in Austria, Chile, The Czech Republic, England, France, Greece, Mexico, The Netherlands and Poland also participated in the meeting.

On June 19, Lusardi and David Cowen, president of the Museum of American Finance, were elected co-chairs of the IFFM, with a term of two years. The meeting was sponsored by The European Investment Bank Institute and McGraw-Hill Financial. $

Photo: Elsa Ruiz

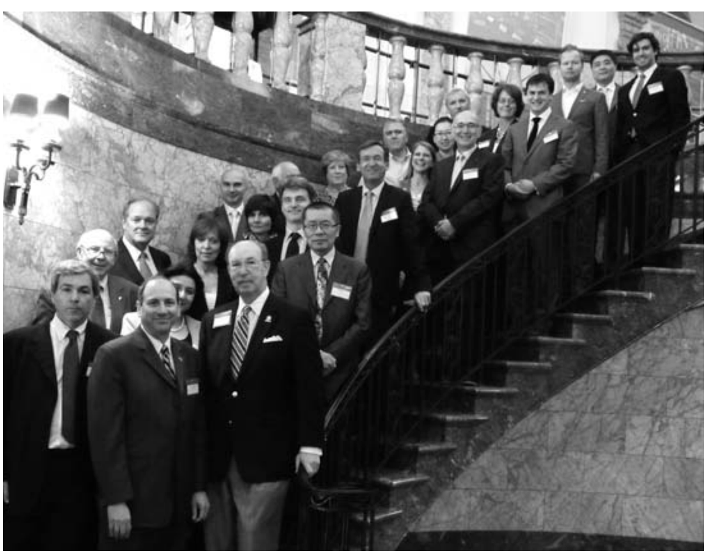

Photo: Kristin Aguilera

Photo: Elsa Ruiz

Clockwise, from top: Annamaria Lusardi, Academic Director of the Global Financial Literacy Excellence Center, delivers the keynote address on June 19; IFFM founders Andrea Beltratti, David Cowen, Annamaria Lusardi and Wei Wang; Attendees of the inaugural IFFM meeting, which included the leadership of finance museums from a dozen countries.

JUL 28 1971 Wells Fargo launches the world's first stock-index fund with $6 million from the pension fund of Samsonite Corp.

AUG 4 1790 Congress enacts Alexander Hamilton's plan to fund the public debt, giving birth to the American securities markets.

Museum Launches Two Free Admission Programs

On May 10, fourth grade students from PS 66 in Brooklyn joined the leadership of hedge fund Southport Lane at the Museum to announce the launch of a free Saturday admission program. Sponsored by Southport Lane, the program includes free admission for all visitors, as well as a free historical stock certificate for all student visitors on Saturdays through 2013. The Museum has experienced a four-fold increase in Saturday visitorship since the program began, and in July broke a single-day admission record of more than 500 visitors.

"The financial history of the United States is a fascinating and vital story about how money, bankers and entrepreneurs helped form our nation's identity, infrastructure and strength," said Alexander Burns, Chief Strategist of Southport Lane. "The Museum tells this story in an entertaining and accessible way. We believe that knowledge of this history will help individuals gain insight into how financial markets build the economy, as well as the concepts of financial literacy in their own lives."

Photo: Alan Barnett

Alexander Burns of Southport Lane and Museum President David Cowen pose with students from PS 66 in Brooklyn at the launch of the free Saturday program in May.

Given the overwhelming success of the free Saturday program, institutional broker dealer R.W. Pressprich funded a similar program in July. Through this program, admission to the Museum is free for all student visitors with ID on weekdays through Labor Day. Like the Saturday program, the student visitor program offers complimentary historical share certificates for students of all ages.

"R.W. Pressprich is dedicated to helping young people understand the many positive accomplishments of the world of finance. The Museum has an extensive collection of financial artifacts and interactive exhibits that make it an ideal place for students to learn and expand their financial literacy," said Edward J. Rappa, Chairman and CEO of R.W. Pressprich & Co. and a new board member of the Museum.

According to Museum President David Cowen, free admission to the Museum is an important objective, as it eliminates the barrier to entry for the people who need the Museum the most.

"As the only institution of its kind in the United States, the Museum plays an important role in educating visitors about the financial successes and declines throughout our nation's history," said Cowen. "Southport Lane and R.W. Pressprich truly understand the importance of the history of American finance, and we are thrilled that their generous donations will help further our mission of promoting financial literacy among even more visitors." $

CORPORATE, FOUNDATION AND INDIVIDUAL SUPPORT

The Museum is most grateful for the support of the following major donors who have generously provided funding for the Museum in the past year.

- The Adirondack Trust Company
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- Alfred J. Hurley, Jr.
- ING U.S., Inc.
- Institute for Private Investors
- JPMorgan Chase & Co.
- Allan and Margaret Keene
- Myron Kandel

AUG 5 1861 The Revenue Act of 1861 becomes law, creating the first federal income tax.

AUG 6 1979 Paul Volcker takes office as Chairman of the Federal Reserve Board.

Volunteer Spotlight: Carol Kaimowitz

Museum volunteer Carol Kaimowitz has a wonderfully diverse background in both the arts and business. A trained classical singer who studied at Oberlin College and the Mozarteum in Salsburg, Austria, Carol performed in various opera companies before beginning a 17-year career in the international property insurance industry in New York, London, Vienna and Zurich. Upon her retirement from the insurance industry, Carol sold antique silver for three years before returning to singing for audiences in New York, Los Angeles and throughout the United States, as well as in Germany.

Carol's diverse background has made her a welcome addition to the Museum's volunteer corps. She began working in the Visitor Services Department in 2009, where she greeted guests at the front desk and provided visitor information. She says she enjoyed this work because of the variety of people she got to meet from around the world.

In 2012, Carol decided to put her language skills to work and began volunteering in the Museum's archives, where she translated a variety of German-language collection materials, including stocks, bonds and *Puck* satirical magazines. In 2013, she took on a major archival project as she identified, translated and researched the Museum's collection of Notgeld emergency currency (*see article, page 8*). She has enjoyed the challenge of this project and says it has been good exercise for her German language skills.

In addition to her volunteer work at the Museum of American Finance, Carol has also volunteered in the Visitor Services Departments of the Whitney Museum and the New-York Historical Society, where she was also a docent. Prior to that, she volunteered for other non-profits, including God's Love We Deliver and Out of the Closet, a thrift shop supporting AIDS charities.

Carol's other interests include attending the opera and other concerts (she holds season tickets to the Met), visiting other museums (The Morgan is among her favorites), reading (particularly non-fiction and biographies) and collecting antiques. She resides in Manhattan and has an apartment in Connecticut. $

- Lehrman & Co.
- Lipper Financial Services, Inc.
- Bobye List
- Lower Manhattan Development Corporation
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- The Morningstar Foundation
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- Ed Murphy
- Nemco Brokerage, Inc.
- NYSE Euronext
- NYSE Euronext Foundation
- OTC Markets Group
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- Anthony Yoseloff

► For information about supporting the Museum's activities and programs, please contact Jeanne Baker Driscoll, Director of Development, at 212 908-4694 or jdriscoll@moaf.org.

AUG 12 1920 Charles Ponzi is arrested for financial fraud in Boston after taking in more than $6 million from thousands of investors.

AUG 13 1981 The universally-deductible Individual Retirement Account (IRA) is created, as President Ronald Reagan signs into law the Economic Recovery Tax Act of 1981.

Notgeld: German Emergency Currency

By Carol Kaimowitz

Notgeld currency notes were issued in Germany from 1914 to 1948 to replace coins, which had become scarce for a variety of reasons. German expansion into other countries created a need for more change. Also, as the value of silver increased, silver coins began to disappear. Some even blamed enthusiastic players of the popular card game skat for hoarding the coins, though this is an unlikely explanation. More importantly, nickel and copper coins disappeared into the caldrons of World War I.

The collecting and, indeed, hoarding of Notgeld were common almost from the very beginning of their issuance. Municipalities, which were the primary issuers of Notgeld, often took this opportunity to show their pride in their cities. It was also a chance for city leaders to demonstrate a sense of humor or disclose their prejudices. The notes were often richly illustrated with images that ranged from folklore to politics and local satire.

The need for Notgeld increased exponentially as inflation reached staggering levels. By the end of 1923, the exchange rate rose as high as 12 trillion marks to $1 on the black market. The official rate was 4.2 trillion to $1. Thus, newsreels of Germans with wheelbarrows full of currency became a familiar site.

In November 1923, the Commissioner of National Currency, Hjalmar Horace Greeley Schact, successfully reined in inflation by creating a new currency, the Rentenmark. The Rentenmark was backed by 4% of public lands, including railroads.

Although municipalities issued by far the most Notgeld, other issuers included individual retailers, manufacturers short of money to pay their workers and POW and concentration camps. Even the Central Bank of Germany (the Reichsbank) and German colonies were involved in this process. In 1914, 452 municipalities issued 5,500 notes, and in 1923, 5,649 entities produced 70,000 notes. By 1947–1948, only about 1,000 notes appeared.

The Museum's Notgeld collection consists of 48 notes and an article written by Richard Behrens of Braunschweig, Germany, dated May 15, 1946. These objects were donated by Professor Joseph W. Eaton of the University of Pittsburgh, who was posted in Germany after World War II. In a letter to the Museum, Professor Eaton explains that he was the editor of the *Regensburger Post*, a newspaper published in Straubing, Germany. Although he does not know how this came to be, among his papers he discovered an illustrated article that Mr. Behrens had submitted to the *Braunschweiger Bote,* a German language newspaper published by the US Army and intended for the residents of Braunschweig during the post-World War II occupation. The Museum accessioned the Notgeld and article in 2009.

The article gives an informal description of how Mr. Behrens came to have the Notgeld. He found the notes "in a yellowed envelope" in a drawer in his house and describes one note with the following poem:

> Collect as many of these as you want,
> They will bring me a sack full of gold.
> I will then take it to the Reichsbank,
> Emergency currency hoarders —
> you are twits!

It is possible that, because of just such hoarders, we have this collection today.

The article describes the notes, indicating their value in pfennigs and marks and giving the location of issuance. Several of the notes are from Braunshweig, the author's birthplace, and they feature cityscapes and images of famous persons. One note also celebrates the local Mumme beer.

Braunschweig also issued a series of four Till Eulenspiegel currency notes (Image 1). According to German folklore, Eulenspiegel was born in Kneitlingen around 1300 and traveled through Germany, the Low Countries, Italy and Bohemia. In the stories, he is generally presented as a fool who plays practical jokes on his contemporaries, exposing vices at every turn. The four notes show Eulenspiegel dressed as a fool and in various situations, including as a lover and a doctor.

A series of eight currency notes from Bad Harzburg shows scenes from the city and surrounding area. These may have been tourism advertisements, as they include pictures of the local spa and race track (Image 2).

The city of Genthin issued 10 different notes of different values with the following preface:

> Isn't it a perverse world?
> The smallest city prints its own money
> And the pictures show the homeland,
> The home town which to you is worth
> more than money,
> Or, should be worth this,
> If you don't want to be a fool.

The collection also includes a series of five different pictures of Otto von Bismarck (1815–1898), who unified most of the German states into a powerful German Empire under Prussian rule. The currency notes each picture Bismarck at a different stage of his life, from a young man in 1836 to an elderly one in 1894 (Image 3).

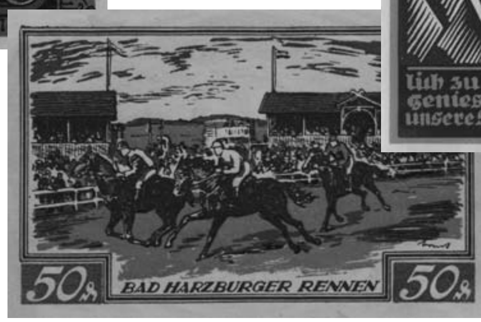
Two full-color notes from Altenau in the Harz area of Germany are particularly attractive. One features a spring

AUG 14 1935 The Social Security Act is signed into law. Payroll taxes are set at 1% for both workers and employers, on the first $3,000 of earnings.

AUG 21 1999 A record price is paid for a membership seat on the New York Stock Exchange: $2.65 million. The record low price was $17,000 in 1942.

1.

1. Till Eulenspiegel
2. The racetrack at Bad Harzburg
3. Otto von Bismarck
4. A Jew in a barber's chair



2.

3.

4.

landscape, and the other depicts a snow scene with skier.

A currency note from the town of Eldagsen contains the following text: "We cannot shell out gold and silver. Therefore, as is done everywhere else, we pay with paper bills." Another note shows a quartet of singers who proudly proclaim, "We are the singers of Finsterwald."

The Savings Bank of the city of Uelzen had emergency currency with an owl on it. The series "Uhlenkoeper," or owl buyers, was issued because a resident was said to have bought a rooster in a sack at the market. But when he opened the sack at home, instead of a rooster, he found an owl inside. Therefore, the residents of Uelzen have been nicknamed Uhlenkoeper.

The Museum also has five emergency currency notes from Brakel in the Hoexter district. Among them is one that depicts two forms of punishment. One sees a Jew in a cage being lowered into a river while another man lies on a kind of seesaw with a large man standing beside him. The text is:

> Such a chamber made of strong iron,
> Dip it into the water quickly.
> Nowadays, it also comes in handy
> To punish common usurers and spendthrifts.
>
> What seems to be simple minded,
> An instrument to sit on,
> Intelligent judges knew
> To use it as a tool to educate.

Jews in traditional dress were sometimes the subject of these currency notes. The city of Brevergungen issued a 50 pfennig note with a full-color illustration of a Jew in a barber chair (Image 4). The text is:

> Since the Golden days
> Oh, David what has happened to you?
> You are only half shaved?
> No, it is really not to be laughed over.
> You can't do business today.
> Yes, now it has finally happened:
> You were shaved over a spoon. (see note)

Another in this series depicts a Jewish peddler offering a large chamber pot to a woman. The text is:

> In autumn, a peddler offered a woman his wares.
> He had brought with him pots of every kind, including chamber pots.
> The woman calls indignantly:
> Go away. It is too big for this purpose!
> Indeed, says David, it is the right size.
> The nights are longer now.

Remarkably, it was acceptable at the time to issue money decorated with anti-Semitic pictures and text.

Notgeld currency notes are still prized and actively collected online. In 1959, the Bundesbank of the Federal Republic of Germany purchased a collection of 200,000 notes dating back 1914. It is now in their museum in Frankfurt am Main. **$**

Carol Kaimowitz worked in the insurance industry in New York, London, Vienna and Zurich. She is fluent in German and, as a volunteer at the Museum of American Finance, she has translated several documents in the collection.

Note

"Shaved over a spoon" is a folk expression meaning to have the wool pulled over one's eyes.

AUG 26 1919

The Coca-Cola Co. successfully sells shares to outsiders for the first time, as a syndicate buys 417,000 shares to resell to retail investors. The company's first attempt at a stock offering in 1892 failed miserably.

AUG 28 2000

The New York Stock Exchange begins trading in decimals, ending the two-century-old practice of pricing stocks in increments of one-eighth of a dollar.

Conrad Kohrs, the Cattle King of Montana

By Brian Grinder and Dan Cooper

The gold strikes in Montana during the 1860s attracted fortune seekers from all over the world. One young miner hoping to strike it rich in Montana after disappointing forays into the gold fields of California and British Columbia was a German immigrant by the name of Carston Conrad Kohrs.

Kohrs was on his way to the gold diggings at Grasshopper Creek, near Bannack, MT, when he encountered Bannack resident Henry Crawford, who offered him a job in his Bannack butcher shop. Kohrs immediately accepted the job, spent most of his time working at the butcher shop and panned for gold on the side. Crawford was impressed with the young man and soon raised his salary from $25 to $100 a month. All was well until Crawford, who had been elected sheriff, tangled with the infamous Henry Plummer.

After several altercations, a fed-up Crawford finally took a shot at Plummer, hitting him in the right arm near his elbow. Crawford, who was aiming for Plummer's heart, now feared for his life. He grabbed all of the money on hand at the butcher shop and made a quick exit from Montana, leaving the penniless-but-determined Kohrs to run the butcher shop on his own.

When gold was discovered at Alder Gulch, most of Bannack's prospectors abandoned their claims and headed to the richer diggings near Virginia City, MT. Kohrs followed his customer base and set up shop in Virginia City. As the population of the gold camps boomed, Kohrs struggled to keep up with the increasing demand for meat and spent most of his time scouring the region for cattle to purchase for his shop. This was a dangerous activity, since he had to carry several thousand dollars of gold dust, the currency of choice, with him in order to buy cattle. Kohrs usually traveled alone on horseback and was constantly on the lookout for road agents. On at least one occasion he had to outrun members of the so-called Plummer Gang to safety.

When the vigilantes took it upon themselves to rid the area of road agents, thieves and other scoundrels, Kohrs was asked to serve as a guide for vigilante search parties. In his autobiography, Kohrs noted an ironic incident where his work with the vigilantes led to his own fleecing at the hands of a "respectable" Virginia City bank:

> I was notified by the vigilantes to accompany them to Deer Lodge and Hell Gate as a guide. I asked if I might go to Summit for the purpose of securing some money, thinking it a good chance to carry it. They refused saying I must be with the party from Nevada [City] that night. So I went to Nolan & Weary, who at that time had a banking house in Virginia City, and borrowed $5,000, for which they asked 10% a month. I took it promising it should be returned as soon as my partner, Ben Peel, could come from Summit and bring down the same. Upon his arrival a few days later, he was informed that they did not do business with interest for less than a month, and he had to pay $500 in interest in addition to the $5,000, which looked almost like highway robbery.

Meanwhile, gold continued to be discovered in other areas of Montana, and Kohrs expanded his butcher business into the new towns that sprang up wherever gold was discovered. The expansion meant that Kohrs had to find more and more beef on the hoof. One reliable source was Johnny Grant, a French-Canadian who owned a ranch near the present-day town of Deer Lodge. In 1866, Grant decided to return to Canada and sold his ranch to Kohrs who began focusing his business on the supply end of the beef industry. He brought in his half-brother, John Bielenberg, to manage the day-to-day operations of the ranch while Kohrs concentrated on the business and finance end of the operation.

This partnership was extremely successful and eventually oversaw an open range ranch operation that at its peak boasted control of a million acres of land in Montana that was supplemented with about 10 million acres of public grazing

National Park Service

Conrad Kohrs (right) and his friends in the sitting room of the main ranch house, circa 1910.

land in several states and Canada. These vast resources allowed the brothers to ship almost 10,000 head of cattle to the Chicago stockyards each year. Kohrs' prominence in the cattle industry earned him the nickname "the Cattle King of Montana," but success didn't come without risk.

British investors in the late 19th century were led to believe that easy profits could be made by investing in cattle companies in the western United States, especially Texas. After all, the land was free for grazing, the costs were minimal and taxes on cattle operations were very low. A part-time rancher simply needed to place cattle on the land and let them graze. Of course, many gullible investors lost a great deal of money in the cattle company bubble that developed.

Historian Lewis Atherton recognized the speculative nature of ranching, noting that "a man could achieve prosperity and then lose everything through accident of a surprising turn in market conditions." Successful ranchers, according to Atherton, possessed a "high degree of entrepreneurial skill." Atherton identified three changes that occurred during Kohrs' lifetime that severely challenged the management skills of ranchers. These changes included the experimental open range period, the organization of large companies accompanied by feverish expansion and severe contraction capped by severe losses during the harsh winter of 1886–1887.

One of Kohrs' first challenges began in the late 1860s as the gold mines began to play out, and his initial market disappeared. The closest market for beef was over 1,500 miles away in Chicago, and the railroads only reached to the southeast corner of Wyoming. Driving 1,000 to 3,000 steers hundreds of miles required about 20 cowboys, 40 horses and several wagons. The herds moved about 10 miles a day, and it took from two to six months to get them to the railhead where they were shipped to Chicago. The cattle drives continued until 1881, according to Kohrs' grandson, Conrad Kohrs Warren, when the first cattle were shipped directly from Montana to Chicago on the Northern Pacific Railway.

Grazing cattle on the open range was a risky business. Part of the risk was alleviated by operating cooperative cattle pools, which allowed ranchers to reduce risk by hiring men to protect cattle ranges against wild animals and thieves and by cooperating in cattle roundups. Kohrs also reduced the risks of cattle ranching by engaging in other business ventures, such as mining and real estate, and his brother John expanded the ranch into horse breeding. When the large cattle companies backed by British investors stepped up production, cattle prices began to fall. Many of the poorly-capitalized cattle outfits were quickly forced out of business as prices fell, but the Kohrs ranch successfully weathered the downturn.

The brutal winter of 1886–1887 dealt a cruel blow to the cattle industry, as thousands of cattle grazing on the open range either starved or froze to death. Although losses at his ranch in the Deer Lodge valley were fairly light, Kohrs lost about 23,000 cattle that winter, mostly on the open range. With 65% of his herd gone, Kohrs faced one of the worst financial crises of his life. Fortunately, his reputation as an honest, hardworking rancher who knew his business well gave Kohrs a boost that few other ranchers suffering through that dreadful winter could expect. Kohrs wrote:

> One of the bright spots in the heavy losses of this season was the kindness of Mr. A.J. Davis of Butte. Hearing of my losses, he sent for me and offered me $100,000 without any security. The confidence of such a friend added to my courage, and I was very happy. While I did not accept it then, I made use of it the year following for the purchase of cattle.

Andrew Jackson Davis, president of the National Bank of Butte, has been described as "one of the most eminent financiers the northwest has ever known." His generous loan enabled Kohrs to quickly recover from the disastrous winter of 1886.

But the era of open range grazing was over. Homesteaders settled on the open range, built fences that impeded the movement of cattle, and severely reduced the amount of land available for open grazing. Kohrs and his brother reduced their reliance on open grazing and concentrated their efforts on developing a breed of shorthorn cattle that was superior to the lanky Texas longhorns and much easier to handle.

When Kohrs' son, William, died unexpectedly in 1901, he began to reduce his ranching operations and moved to Helena, where he was actively involved in state politics. » *continued on page 37*

National Park Service

Cowboy on horseback herding Kohrs cattle in Eastern Montana, circa 1910.

The Colonial Public Lottery

A Beacon of Light for New Yorkers

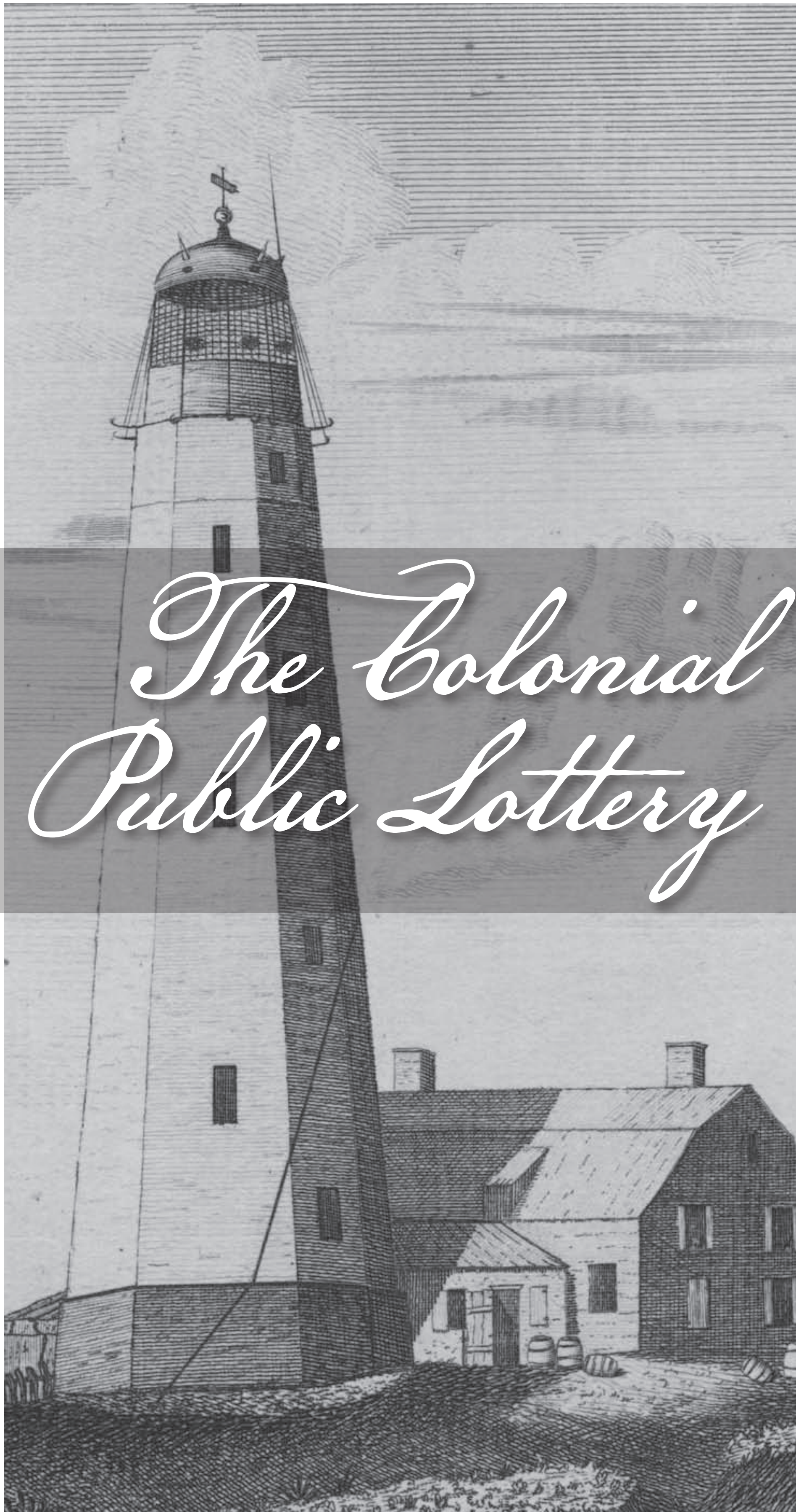


Illustration of the lighthouse at Sandy Hook, which was funded by a public lottery.

By Julia Bricklin

In mid-November 1763, William Johnson found out his lectures on the uses of lightning at the Province Arms were going to be interrupted. The last tickets for the Publick Light-House Lottery had been sold, and New York colonists were much more interested in improving their lot than tampering with "liquid fire." On November 14, people of all walks of life jammed the Province Arms on the Broad-Way. They cheered or groaned every time one impartial schoolboy pulled a numbered scroll from a wooden box, while another pulled an accompanying prize amount, or merely a blank, which meant no prize would accompany that number.

Lotteries were nothing new to New York, or the rest of Britain's North American colonies, but the Sandy Hook lighthouse fundraiser was significant for two reasons. The enormity of it — three drawings over roughly three years — required newspapers, colonial managers and royal administrators to work more closely together than ever before. Also, its success was one of the main catalysts for Britain to later rescind permission for colonies to hold their own lotteries. Revolutionaries cited this directive as an example of British suppression of the colonies' economic independence.

In 1761, colonial New York was reeling from damage and lost export income due to the French and Indian War. It was futile for New York to look to the Crown for help with any basic infrastructure needs, such as bridges and dams, or institutions, like colleges and churches. Although Britain gained significant territory in the New World from the conflict, the British expected the colonies to help shoulder the crushing debt (by 1763, upwards of £122 million plus interest) through a series of taxes. In fact, New York had already employed lotteries to deal with some of the effects of war, such as one to reimburse the City of Albany in 1758, and one to arm the poor in Richmond County.

In his article "Public Lotteries in Colonial New York," Samuel K. Anderson explains that the normal expenses of colonial government were usually met by a system of duties on imports, especially on wines and distilled liquors, slaves and European goods. These duties were kept relatively low owing to the political strength of the New York City merchants and their allies in the great manors of the Hudson River Valley. Moreover, farming counties resisted the legislature's attempts to levy property taxes to raise colonial armies in times of war; these counties felt they bore a disproportionate share of the burden. In order to avoid the bitterness sure to accompany a new tax, the legislature instead introduced the first New York public lottery in 1745, with others to follow about once a year for the next two decades.

These public lotteries were very different from private ones, which had proliferated throughout all of the colonies since the mid-1600s. Private raffles were a way for individuals to raise cash in return for land, homes, livestock, guns, silver — even wives and slaves. New York's colonial legislature passed a somewhat toothless act in 1721 banning the disposition of property by private lottery due to the "pernicious consequence to merchants, shopkeepers and traders," because raffles could inflate the worth of the goods well beyond their intrinsic value. The government carefully avoided regulating money prizes at this time.

According to lottery historian John Ezell, to understand why the colonial governments began licensing lotteries instead of abolishing them, it is necessary to remember that the people as a whole favored lotteries and had no moral objection to them. With protection against fraud, people felt it was their own affair if they risked their money. This feeling was particularly strong when the undertaking was linked with an enterprise for public good. Colonial officials sanctioned certain lotteries to raise cash, to avoid new, unpopular taxes.

Edmund Andros, colonial governor of New York, saw the need for a lighthouse at Sandy Hook as early as 1680. He suggested to Governor Philip Carteret of New Jersey that "sea marks for shipping," such as a lighthouse, be placed on the sand barrier, in an attempt to dispel the bay's moniker "Graveyard of Ships." In the 1750s, northern New Jersey colonists began maintaining a simple fire beacon on the Navesink Highlands, on a pole about 100 feet high. This crude lantern is thought to have used lighted kegs of oil at night, hoisted up before the sun set. Allegedly, the glow could be seen as far away as New York City, but this system did little to prevent shipwrecks, which increased exponentially as commerce grew after the war ended. In fact, "wrecking" became a full-fledged business along the New Jersey coastline, whereby people with no claim to the goods or ships would salvage what they could from sunken vessels and re-sell the cargo, wood and metals.

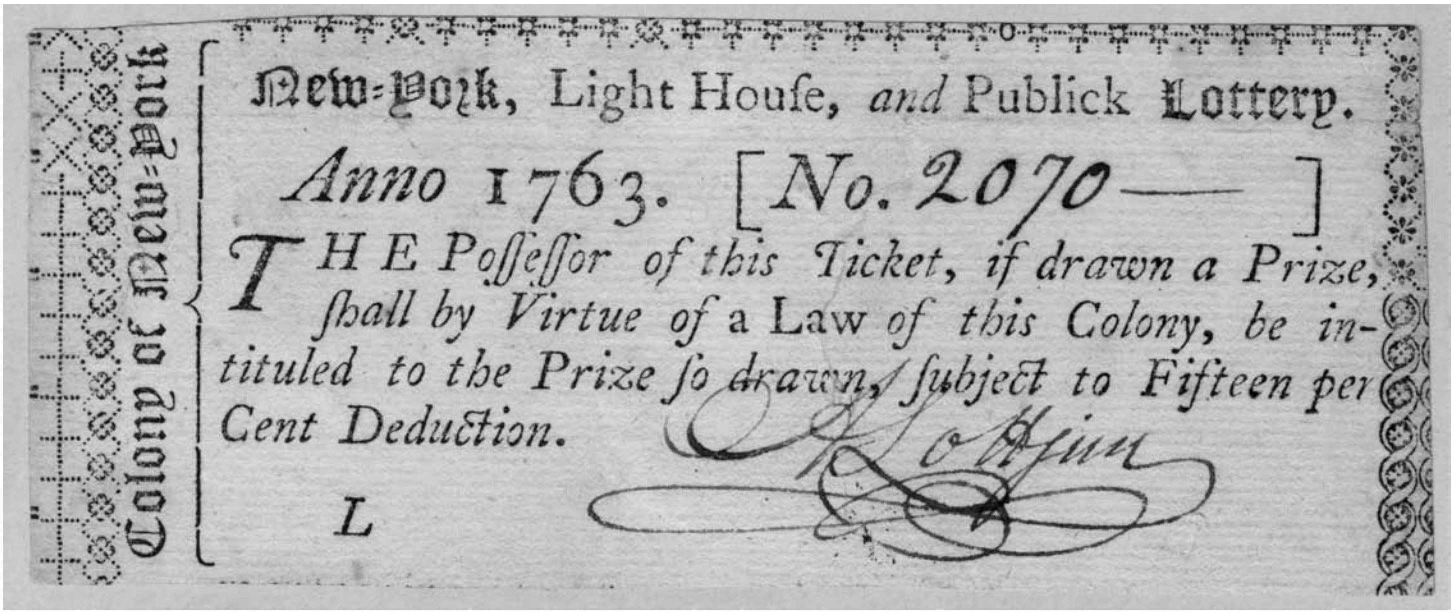
By 1761, the wealthiest shipping merchants of New York colony had had enough. In the first few months of the year alone, the merchants lost approximately £20,000 to shipwrecks. Forty-three gentlemen, including Philip Livingston, William Bayard, Leonard Lispenard and John Cruger, petitioned the colonial assembly to approve a lottery to raise funds for a "proper Light-House." In May, the colonial legislature did so, and the *New-York Mercury* announced:

> SCHEME OF A LOTTERY, By Virtue of an Act of the Colony of New-York...for raising the Sum of 3000 Pounds to be applied for and towards purchasing so much of Sandy-Hook as shall be necessary… As the publick must be convinc'd of the Utility of a Light-House upon Sandy-Hook, it is hoped that all who have the safety of Navigation at Heart, on which the Prosperity of this Province greatly depends, will become cheerful Adventurers to promote so laudable an Undertaking.

At the time, the term "scheme" simply meant a written plan for a lottery.

The architects of this lottery decided it would consist of 10,000 tickets, of which 1,684 would be drawn for money prizes and 8,316 would correlate with blank slips of paper. This plan would garner £20,000, although 15% would be deducted from each prize to raise £3,000. The cost was 40 shillings each, about $380 in today's dollars. Indeed, people could and often did split both the cost and prize of a particular ticket, similar to the practice of groups buying large quantities of Powerball tickets today.

Though £3,000 was an enormous sum



Collection of The New-York Historical Society

Colony of New York public lottery ticket, dated 1763.

at the time, it was by no means the largest attempted in that era. In 1746, New York's provincial government passed an act allowing for the sale of 15,000 tickets at £1, 10 shillings each, for the purpose of fortifying New York City against French and Indian encroachments. After New Jersey's interim governor, John Hamilton, announced the foundation of the College of New Jersey (now Princeton University) in 1746, New York's assembly quickly advertised a lottery to raise £15,000 for King's College, now Columbia University.

The college lotteries set some precedent for solving problems associated with use of funds collected for public works and institutions. For example, in 1756, the assembly passed an act that allowed it to redirect any extra monies from public lotteries to other public causes. Conversely, monies collected from certain taxes could be added to lottery surplus, to allow for bigger purchasing and investment power. By the time of the Sandy Hook lottery, many "best practices" used by all the colonies for raffles had become institutions in New York, such as clipping or marking tickets so they would be more difficult to counterfeit. Of course, counterfeiting tickets was, and had been for some time, punishable by "death, without the benefit of clergy."

Before any public lottery could be announced, colonial legislatures had to appoint managers to oversee it and its operations. These managers were typically gentlemen who held previous government positions of trust, and enjoyed high standing within the community. Their duties included printing and delivering tickets, designating a place to sell them, overseeing the lottery drawing and any other necessary activities.

Neal Millikan, in her book *Lotteries in Colonial America*, explains that lotteries took the role of manager very seriously. Managers were required to take oaths and enter into bonds in which they promised to justly execute their role or pay a high monetary penalty. Sometimes, managers received no remuneration for their efforts. For example, a lottery established by the colony of Rhode Island during the French and Indian War noted that its managers would receive "Nothing for their Trouble."

This was not the case with Sandy Hook. For the first installment, in 1761, the assembly hired Anthony Ten Eyck, Theodorus Van Wyck, Abraham Lott, Jr. and Dirck Brinckerhoff as "fit persons" to sell tickets and administer the lottery. For the 1763 drawing, it hired Lott again, along with Christopher Smith. Assembly minutes report that £400 was allocated for the managers for the second installment.

It is likely any manager associated with Sandy Hook earned between £75 and £100. Despite this healthy stipend, it is unlikely that Lott, Smith, Ten Eyck and their colleagues felt as though this was anything but a job to remain in the good graces of the legislature. They all earned significantly more money for various Assembly positions, and all had vast landholdings. Lott, and possibly the others, also had a healthy side business translating Old Dutch records into English for the Crown.

One of the major tasks for the managers was to advertise deadlines. In May 1761, the Sandy Hook managers placed advertisements in the *New York Mercury* and *New York Gazette*, which said in part that the drawing would commence on November 2. Similar advertisements appeared almost on a weekly basis throughout the summer, until August 10, when the *Gazette* announced:

> The Managers of the New-York Lottery For building a Light-House Upon Sandy-Hook, Hereby inform the Publick, That contrary to the Practice of former Lotteries, which used to fill principally towards the End of the Time limited for drawing; the present is so far filled, that instead of its

> being drawn on the second Tuesday in November next...that the same will be filled so as to be drawn some time in the Month of September next…

The managers urged "those who have as yet not become Adventurers in the said Lottery" to hurry up and buy their tickets, before they were all gone. In most previous public lotteries of any significant size, managers were compelled to return all monies if all tickets were not sold within six months of advertisement. In this instance, the managers' "hurry, we are selling out" gamble paid off. By the end of September, all tickets had been sold, and the drawing was held from September 28–30 at City Hall. John Aberdeen, steward to General Amherst, held ticket 4759, which drew a prize of £1,000.

Unfortunately, £3,000 was not enough to complete Sandy Hook. On May 10, 1762, lottery managers paid Robert and Esek Hartshorne, owners of the land spit, £750 in return for four acres on which to build the house. It is not clear where the remainder of the money went, and why it was insufficient. Regardless, a bill was passed in December permitting two successive lotteries of the same size for the same purpose under essentially the same supervision. In January of 1763, the managers by way of the *Gazette* and the *Mercury* implored residents to purchase tickets, even if they had already done so before, to help finish the lighthouse, and to defray government costs.

The proceeds from the second and third drawings, held in spring and fall of 1763 and totaling £6,000 more, appear to have been considerably more than enough to complete the lighthouse, notes Anderson. The accounts of Lott, who became treasurer of the colony from 1767 to 1776, reveal a remainder attached to the lottery that represents more than half of the receipts, even after managers' fees and other costs were removed. This amount remained in the treasury until 1772, when it was applied to other expenses of government.

The lighthouse lottery was the last successful one in New York, before Britain rescinded the right of its colonial assemblies to license these fundraisers in 1769. The last one in New York was the Hemp Lottery, an attempt to close a gap in balance of trade between Great Britain and northern colonies by encouraging the production of this raw, versatile crop that could be traded for British goods in lieu of coined money that was in short supply in New York. After many delays, it was finally held in May 1765, but as the lieutenant governor noted, it did not have "its intended effect," and scant amounts were paid to hemp farmers. Most of the money was diverted to the quartering of troops stationed in the colonies prior to 1775.

The Crown and British Parliament passed a slew of acts and instructions related to lotteries between the end of the French and Indian War in 1763 and the beginning of the Revolutionary War. One of these was the 1764 Currency Act, the wording of which was a precursor in many ways to the 1769 lottery instructions. It forbade the colonies to issue paper money, in order to protect the pound sterling for mercantilists. This left little to offer in terms of lottery prizes, except foodstuffs — not enough to entice people to let go of their scarce pounds. Britain hoped to capitalize on the gaming proclivities of the British subjects in America by issuing the 1769 instructions and forcing American colonists who wanted to become adventurers to buy English State Lottery tickets. As Millikan notes, this plan backfired. Not even 100 tickets were sold in the colonies.

The Crown claimed that lotteries distracted people from their "proper callings and occupations," and that they were rife with fraud and abuse. This was partially true, but Britain's hostility to "colonial schemes" during these post-war years was motivated more by the desire to tighten political and economic control over its overseas possessions. While there is no "smoking gun" to connect the lighthouse lottery to Britain's 1769 extinguishment of public lotteries, its scale and success is most certainly a primary reason New York's provincial government authorized no more lotteries between 1764 and the Revolution. Millikan notes that complaints against the King in the Declaration of Independence have ties to royal lottery interference: "He has forbidden his Governors to pass Laws of immediate and pressing importance," and refused assent to laws that were "most wholesome and necessary" for the public good.

Today, Sandy Hook is the oldest working beacon and is maintained by the National Park Service. Since June 1764, when it was first lighted, it has served as a reminder that New Yorkers were capable of building an infrastructure suitable to their immediate needs and future prosperity, without being dependent on a country thousands of miles across the ocean. $

Julia Bricklin is a founder of Pulp Free Publishing, a digital publishing company. She writes about economic issues in history for various publications, and is currently working on a book about the music business in 19th-century America.

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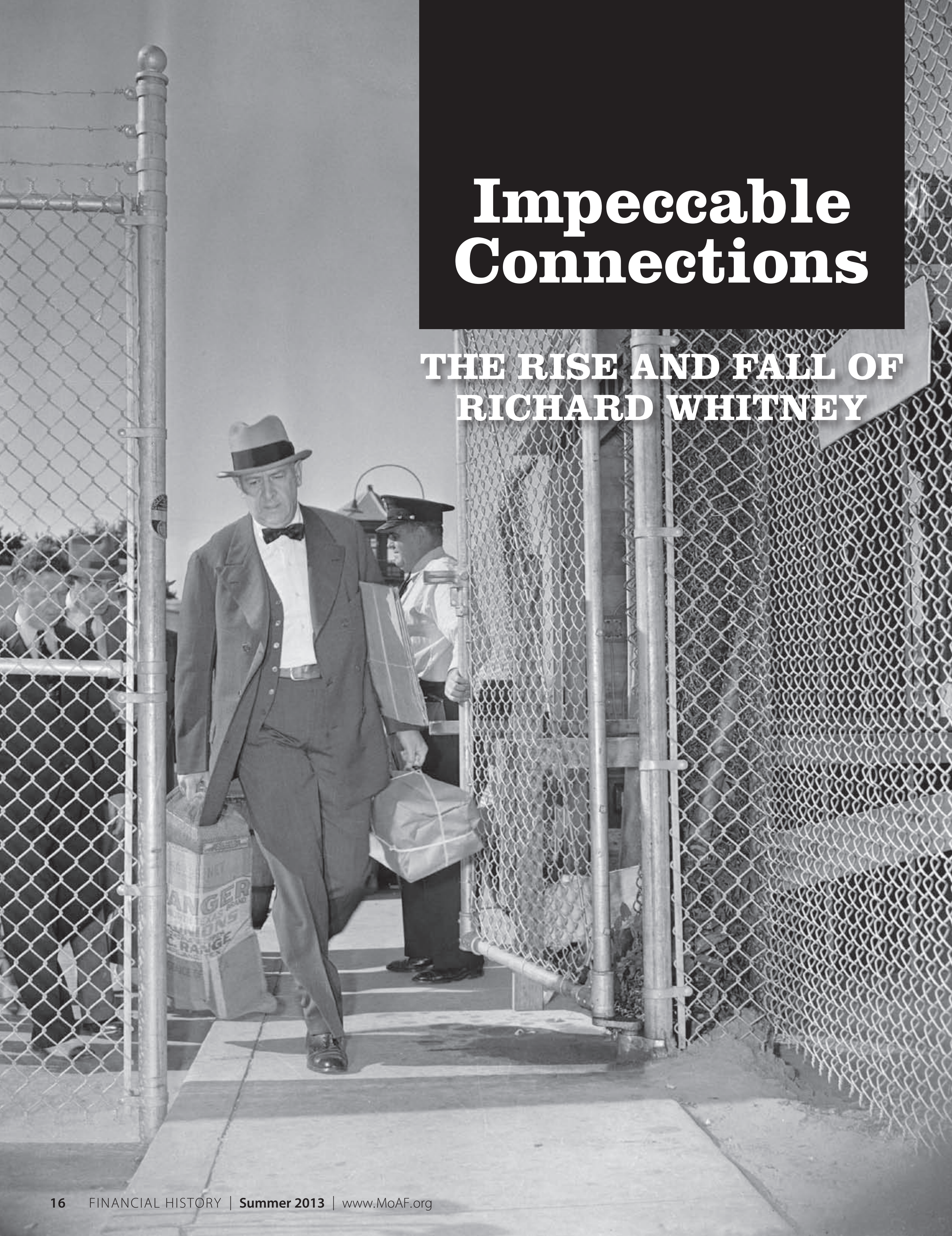
Impeccable Connections

THE RISE AND FALL OF RICHARD WHITNEY



By Malcolm MacKay

The Roaring Twenties were never louder than at the southwest corner of Wall and Broad Streets, home of the New York Stock Exchange, especially as summer turned to fall in 1929. The Dow rose to 381 on September 3, 1929, a six-fold increase over the decade and a record high that would stand for the next quarter century. The following seven weeks were marked by unusual price volatility, but few anticipated what was to come.

On October 24, a day that has gone down in history as Black Thursday, prices collapsed from the opening bell. Winston Churchill, who happened to be in the NYSE visitors' gallery, looked down with amazement at the chaos on the trading floor. A large silent crowd gathered on the street outside. An air of panic grew in direct proportion to the stock ticker falling further and further behind.

As the Trinity Church bells rang out at noon, several well-known bankers worked their way through the crowd and entered 23 Wall Street, the unmarked offices of J.P. Morgan & Company. The bankers did not stay long, and then Morgan senior partner Tom Lamont met the press.

"There has been a little distress selling on the Stock Exchange," he said, in what would later be described as one of the most remarkable understatements of all time, "and we have held a meeting of the heads of several financial institutions to discuss the situation."

At 1:30 pm, Richard Whitney, acting president of the Exchange and Morgan's primary bond broker, strode onto the trading floor representing the angel bankers. He was 41 years old, over six feet tall and exquisitely dressed. Confident, and perhaps even jaunty, Whitney went directly to the US Steel specialist and offered 205, the last sale price but well above the offering price, for 10,000 shares. He proceeded to other trading posts, also bidding at the prices of the last sales.

Whitney's intervention seemed to work. By day's end, the market was off only 12 points. Prices held firm on Friday and Saturday, only to collapse the next week absent additional support from the bankers.

Richard Whitney, former president of the New York Stock Exchange, leaves Sing Sing prison on August 11, 1941, after serving 40 months for grand larceny.

Although the success of his intervention was fleeting, Whitney emerged as a heroic figure. With impeccable social connections and patrician style, he was elected without opposition to the presidency of the Exchange the following spring, and re-elected annually four more times. He became the national spokesman for the securities industry, often testifying in Washington, speaking across the country and appearing in movie house news clips. CBS and NBC carried his speeches on national radio, and in 1934 he was on the cover of *Time* magazine.

The years of Whitney's presidency at the Exchange, 1930–1935, were difficult for Wall Street and the entire country. By the end of 1932, stock prices had fallen 89% from their 1929 highs, and unemployment had reached 25%. The Democrats took control of the House of Representatives in the 1930 elections and the Senate two years later when Franklin D. Roosevelt became President.

Washington wanted to reform Wall Street, and Wall Street wanted to be left alone. Initially, Whitney was effective in making the case against federal securities regulation. In 1932, after he testified for nine consecutive days as the lead witness before the Senate banking committee, he was portrayed in a cartoon as a teacher with the senators as school children.

In early 1933, however, the committee hired a new counsel, Ferdinand Pecora, who moved quickly to expose abuses in the banking and securities industries to a largely unsuspecting public. Called again before the committee, this time Whitney did not do as well. During FDR's "first 100 days," Congress passed both the Securities Act of 1933, imposing disclosure requirements on the industry, and the Glass-Steagall Banking Act, mandating the separation of investment and commercial banking.

The passage of the 1933 Securities Act was a defeat for Wall Street, but one it could survive. The proposed Securities Exchange Act of 1934, creating the Securities Exchange Commission as the industry's regulatory agency, was another matter. Whitney led the attack on the proposed act, and his message was simple: the securities industry could regulate itself, and the federal government should stay out. He used arguments and language strikingly similar to today's opponents of federal oversight: government regulation impedes economic activity, markets are self-correcting, beware of the slippery slope to socialism. He predicted that passage of the 1934 Act would turn Lower Manhattan into "a deserted village."

Not content merely to speak against reform, Whitney organized a national lobbying effort, complete with letter writing campaigns, rallies and delegations converging on Washington. FDR was impressed with the ferocity of Whitney's campaign: "…a more definite and highly-organized drive is being made against effective legislation than against any similar recommendations made by me."

The passage of the 1934 Act did not end the debate. It not only created the SEC, but also gave it virtually unlimited authority to set the rules by which the securities industry would operate. In effect, Congress empowered the SEC to define its own role. Thus the battle over the SEC did not end with the passage of the 1934 Act; if anything, it intensified under both the first commission chairman, Joseph Kennedy, and the third, William O. Douglas.

With Whitney and Kennedy, it was Boston Brahmin versus Irish Catholic upstart. With Douglas, it was establishment businessman versus liberal professor. Whitney fought against virtually everything the SEC wanted to achieve. He blamed the decline in the issuance of new stocks and corporate bonds, and a parallel decline in securities sales, on federal regulation and fear of more to come. But not many outside his inner circle saw it that way.

Over time, Whitney began to lose support with both the general public and his fellow Exchange members. He had a tin ear for the movement in public opinion toward reasonable regulation. Maybe just as significant, his obvious sense of his own social superiority began to grate on others.

The bedrock of Whitney's support among Exchange members was the old guard of specialists and private traders. Both groups benefited from inside information about trading activities and specific companies not available to outsiders. Increasingly, power within the Exchange was shifting to the retail brokers serving a national market. These brokers realized that their business depended on the Exchange being perceived as fair and transparent, and not subject to the manipulations of a few.

In the spring of 1935, the Exchange's nominating committee, over the strenuous objections of the old guard, decided not to nominate Whitney for a sixth term as

president. He was re-elected as a governor and was also made a trustee of the Stock Exchange Gratuity Fund, an insurance program for the families of deceased members. He continued to lead the opposition to the SEC's effort to transform the Exchange from private club to public institution.

The SEC, with growing support among Exchange members, focused on several proposals: elimination of private trading, strict control of short selling, limits on margin trading, creation of the Depository Trust Company to hold security certificates and clear rules concerning the role of specialists. As for Exchange governance, Douglas, in particular, was adamant: replacement of the volunteer president and member-only governance structure with a paid chief executive, independent staff and board with some members representing the public.

It took the reformers until early 1938 to achieve their goals, with Whitney in untiring, if increasingly less effective, opposition. That January, at a decisive meeting of Exchange governors, Charles Gay—Whitney's successor as Exchange president—stepped down from the rostrum to the well of the governor's room and made clear his position: reform was inevitable. The only remaining issue was whether it would be imposed by the government or initiated by the Exchange itself. It was the first time Gay had publicly opposed Whitney. Whitney argued for delay, but no one spoke in support. Reform had won.

The public Richard Whitney was a poster boy for the old American establishment. While his family was comfortable and old Massachusetts, it was not wealthy, or particularly distinguished. His father had risen from a clerk at age 17 to a successful importer and banker. Richard followed his older brother George to Groton, Harvard, the college's socially elite Porcellian Club and Wall Street. At his 25th college reunion in 1936, he was elected the second most successful classmate.

His classmates would learn, just two years later, that they were wrong about Whitney. Everyone was. While the public man flourished, the private one self-destructed. Beginning at least in the mid-1920s, he lived beyond his means, he invested terribly and he borrowed more and more.

In early 1933, Whitney thought he had found the path to riches. Anticipating the repeal of Prohibition, he helped organize the Distilled Liquors Corporation, consisting of several small local distilleries whose main product was apple brandy, also known as "Jersey Lightning." The drink was popular in New Jersey hunt country during Prohibition, and Whitney was certain it would sweep the country when sales became legal, as they did in December.

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Portrait of Richard Whitney, dated September 30, 1929.

For a while, Distilled Liquors looked like a winner. By the spring of 1934, its share price had tripled from $15 to $45. Whitney used the stock he already owned as collateral for bank loans to buy more shares. After its early run up, the share price, however, began a long decline, which caused the lending banks to require more and more collateral, something Whitney could not produce. His solution was to "peg" or support the share price—at around $10—by buying shares that otherwise would have been sold below the peg. Pegging, of course, required more and more cash as Whitney (and his firm) became virtually the sole buyer. By early 1938, he owned almost the entire company.

Whitney needed new loans to pay down old loans. In his impersonal, matter-of-fact way, he took to soliciting loans from people he barely knew, including Exchange members he had previously ignored. Many responded positively to his solicitation, although there were also—and increasingly—rejections. Sidney Weinberg, later head of Goldman Sachs, turned him down. Sell'em Ben Smith, a notorious stock manipulator in the 1920s, also said no. Still, in one four month period, Whitney borrowed 111 times, for an amount totaling over $27 million.

Try as he might, Whitney could not keep up with his cash needs. For many years, he had occasionally taken securities from family trusts created by his late father-in-law. In early 1936, he went a step further. As a trustee of the New York Yacht Club, he also served as the club's treasurer and broker, keeping its bond certificates in his firm's

safe. He pledged $150,000 worth of club bonds as collateral for one of his bank loans. Almost exactly a year later, he repeated this criminal action, but with $657,000 worth of bonds and $221,508 in cash from the Stock Exchange Gratuity Fund, where he was also the broker as well as a trustee.

Unlike the yacht club, the fund normally kept its security certificates in its own safe. Five times over the spring and summer of 1937, a clerk at the fund asked Whitney to remit the certificates, and each time there was some excuse for the delay. The clerk later admitted that he saw Whitney as a boss and was intimidated by him.

On the Monday before Thanksgiving in 1937, the fund trustees held their regularly-scheduled meeting. Whitney did not attend; it was the only one he had ever missed. Perhaps taking advantage of his absence, the clerk informed the board that Whitney had not forwarded the fund's certificates and cash in his possession. At the meeting's conclusion, the fund's president called a Whitney partner, who, although he knew nothing about the matter, promised delivery the next day.

Whitney was caught. The next day he went to see his brother George at Morgan. George had a long history of making Richard loans that in recent years remained outstanding. It was time for yet another one.

Richard came right to the point: he had pledged securities of substantial value that belonged to the gratuity fund as collateral for a bank loan, and had also misappropriated a considerable amount of cash. As Richard later recalled, "He (George) was terribly disturbed and aghast that it could have been done and asked many, many times why I had done it, and just couldn't understand it — thunderstruck, as he had reason to be."

George committed to make an unsecured loan of $1,082,000, the entire amount needed to be returned to the fund. Normally, George would have withdrawn such an amount from his capital in the Morgan partnership, but he couldn't do so without permission of the late Pierpont Morgan's son Jack, who was in Europe. Instead, George borrowed the amount from Tom Lamont, the *de facto* chief executive of Morgan, with the understanding that Lamont would be repaid upon Jack's return. George told Lamont that his brother had misappropriated funds from "some customers."

The next morning, Richard personally delivered the stolen securities and cash to the fund's president and clerk. Both of these gentlemen later would testify that they assumed the long delay in the delivery was solely the result of back office disorganization. Two weeks later, Jack Morgan, back from Europe, gave George permission to withdraw the required funds from the partnership. George told Morgan, "Dick got into an awful jam in November, and I went to Tom Lamont when you were not here and he loaned me the money." Later, Morgan said he knew at the time the awful jam must have been a business matter because the amount was so large.

Thus it came to pass that, by late 1937, two Morgan partners of great prominence knew specifically that Whitney was a criminal, and a third had reason to suspect the same. None of the three chose to inform the law enforcement or Exchange authorities. Their failure to act, particularly Lamont's, would become a hotly debated issue a few months later at both the SEC and the Exchange. The SEC report on the Whitney matter censured Lamont for "a stubborn indifference to the public responsibility," but did not recommend any action be taken against any of the three Morgan partners for dereliction of duty. A similar decision by the Exchange triggered the resignation from its board of Robert Hutchins, a recent public member and the president of the University of Chicago.

Under pressure from his brother, Richard made efforts to sell his firm, but there were no takers. The firm's capital was mostly shares of Distilled Liquors, whose assets consisted almost entirely of 550,000 gallons of "Jersey Lightning" brandy and about a million gallons of plain cider. Rumors of Whitney's financial problems, not all accurate, began to make the Wall Street rounds, and finally led the Exchange to conduct an on-premises examination of the firm. On Saturday morning, March 5, 1938, Whitney was informed of the examination's conclusions: his firm was insolvent and he was guilty of embezzlement.

Thus began a busy weekend. Whitney spent the afternoon trying unsuccessfully to convince Charles Gay that the Exchange should not pursue charges against him. From late Saturday afternoon until Sunday evening, Whitney and Francis Barlow, the Morgan partner in charge in the absence of Lamont and George Whitney, initiated a series of hurried meetings. They involved various lawyers and Morgan partners, and two trips by Barlow to Long Island's North Shore to confer with Jack Morgan and John W. Davis, Morgan's counsel and the 1924 Democratic presidential candidate. The partners followed Davis' advice: don't do anything to help Whitney or risk being an accessory to a crime.

It was a short end game. On Monday, March 7, the Exchange's business conduct committee recommended that charges be brought. The next morning the Exchange suspended Whitney and began the process of expulsion. The world watched as Whitney admitted everything and assumed all responsibility. No whining, no pointing at others, no plea bargaining. On Thursday, Whitney was indicted for misappropriation of securities from his father-in-law's trusts, and the next day for the New York Yacht Club embezzlement. He insisted on pleading guilty. He may have been a criminal, but he was also a gentleman, and a gentleman does not lie.

On April 11, sentencing day in the family trusts prosecution, a crowd of onlookers gathered outside Whitney's house on 73rd Street. At 9 am, a liveried butler opened the front door, and Whitney and his lawyer departed for court. He had turned down offers from his wife and brother to accompany him. For the rest of the day, flowers from friends were delivered to the house to comfort Mrs. Whitney. The sentence was five to 10 years, although he only served three years and four months.

Released early for good behavior in 1941, Whitney would live for more than three decades, surviving his loyal wife and supportive brother. George would make good on all of his brother's failed loans and misappropriations. After a few false starts in various businesses, Richard ended up as the treasurer of a local dairy owned by a Far Hills neighbor and lived in a cottage on a local estate. Although no longer part of the horse country gentry, the Whitneys did see their children and grandchildren and a few old friends. In the tradition of his clan, he never discussed his past "troubles," as he called them. $

Malcolm MacKay is a lawyer and businessman and the author of Impeccable Connections: The Rise and Fall of Richard Whitney, *from which this article is adapted. As a boy and young man, he knew Richard Whitney in his post-prison years. He has thought about Whitney, and why he did what he did, all his life.*

CITY *of* AMBITION

By Mason B. Williams

The Great Depression came later to New York than it did to the industrial cities of the heartland. Though charity officials and the New York Urban league had noticed a rise in unemployment as early as 1927, it took more than two years before public officials began to pay sustained attention to the problem of joblessness. Even the stock market's sudden collapse in October 1929 registered only faintly on the city's civic and political life; in the heat of the mayoral campaign, neither Congressman Fiorello La Guardia nor incumbent mayor Jimmy Walker made any real mention of it. The final months of 1929 saw the first widespread decline in employment, but New York Governor Franklin D. Roosevelt did not discuss business conditions or unemployment in his January 1930 message to the state legislature. By the spring, however, conditions had deteriorated perceptibly, and breadlines had begun to form in the city.

The months that followed offered fleeting moments of hope amidst an otherwise unrelenting contraction, punctuated, beginning in the fall of 1930, by terrifying bank runs. Within two years of the 1929 stock market crash, it was evident that the nation was facing its greatest domestic crisis since the Civil War.

The Great Depression struck first and most forcefully at the nation's manufacturing and construction industries. During the winter of 1930–1931, social workers discovered a group they called the "new poor" — first-time charity recipients who had held what were usually considered good jobs. Prominent among them were "able-bodied men of skill and good standing in well-paid seasonal occupations (the needle trades and the building trades, notably). They were used to periods of idleness, but ordinarily they earn[ed] enough in the good season to carry them through the slack time. Last year [1930] the preceding good season had been poor and brief, while the slack period was longer and slacker."

As the crisis deepened the ranks of the "new poor" grew more diverse. Many office workers — "accountants, stock-and-bond salesmen, high-grade clerical workers" and the like, which had been among the fastest-growing occupational categories in Jazz Age New York — lost their jobs or saw their compensation reduced; others were forced into early retirement. By November 1932, white-collar workers constituted more than a quarter of the unemployed in New York. The spreading of the Depression into the middle classes, in turn, dealt a hard blow to service-sector workers and their families.

As the months passed, and particularly as people who had achieved a measure of economic security lost their jobs, the recession became a psychological event as well as a social and economic one. Social workers enumerated the effects of unemployment: discouragement, desperation, bewilderment, confusion, loss of initiative, apathy, lethargy, obsessiveness, bitterness, cynicism, resentment, restlessness, irritability, loss of pride and "constant fear." Many of those who lost their jobs struggled with these emotions as well as with the immediate challenges of getting bills paid and groceries purchased.

Some New Yorkers fell into complete destitution: shantytown encampments housing some 2,000 people developed in Central Park, near the garbage dump alongside the Hudson River and amidst factories and warehouses on the East River and in Red Hook. Jobless men and women took to hawking "everything from pencils to cheap neckties to apples" on Manhattan street corners. Some tenants joined in neighborhood action to fight evictions; more relied on the leniency of landlords, who were under informal pressure from City Hall not to evict delinquent tenants and who, in turn, began referring their tenants to relief agencies. The more fortunate deferred vacations and regular consumer purchases. A large internal migration occurred as families that had moved into affluent neighborhoods in the 1920s retraced their steps – from Queens back to Yorkville, from the West Bronx back to the East Bronx. Eventually savings ran out and real poverty set in. By 1934, according to one estimate, 20% of New York public school students suffered from malnutrition.

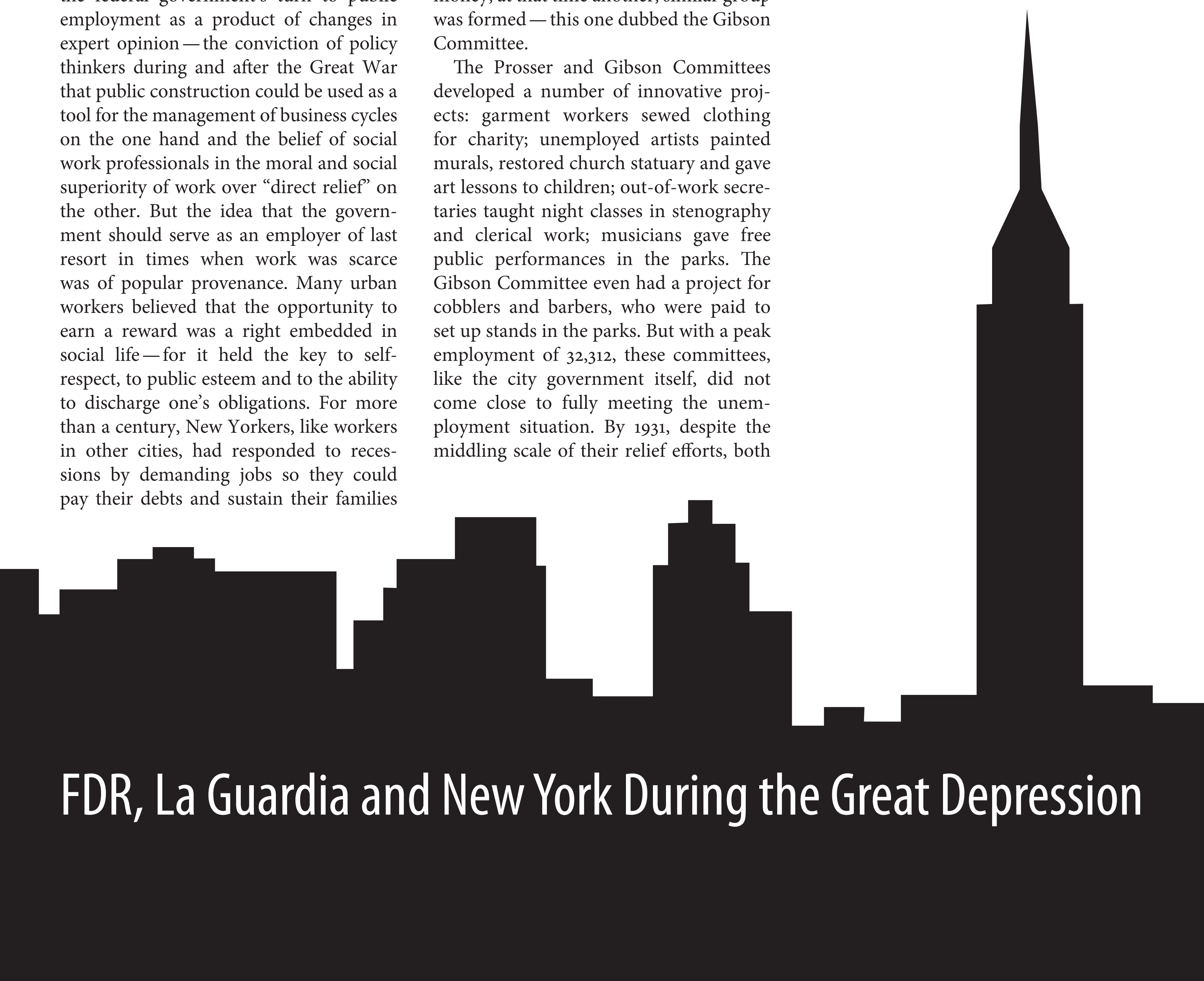
Between 1930 and 1932, many families found that the material resources and the sense of security they had struggled to attain over the previous decades had vanished. The city and the nation were submerged by the Depression, and as the effects of individual material deprivation and psychic trauma rippled outward into relations with spouses, children, friends and communities, the very foundations of everyday life were shaken.

What ultimately proved most distinctive about the civic response to the unemployment crisis of the 1930s, first in New York and then in the United States as a whole, was the degree to which it focused on providing work rather than the simple necessities of life. Recent studies of the New Deal works programs have tended to ascribe the federal government's turn to public employment as a product of changes in expert opinion — the conviction of policy thinkers during and after the Great War that public construction could be used as a tool for the management of business cycles on the one hand and the belief of social work professionals in the moral and social superiority of work over "direct relief" on the other. But the idea that the government should serve as an employer of last resort in times when work was scarce was of popular provenance. Many urban workers believed that the opportunity to earn a reward was a right embedded in social life — for it held the key to self-respect, to public esteem and to the ability to discharge one's obligations. For more than a century, New Yorkers, like workers in other cities, had responded to recessions by demanding jobs so they could pay their debts and sustain their families until businesses began hiring again. "Work relief" seemed a natural response to the unemployment crisis of the 1930s, in short, because a long tradition of working-class demands that the local government serve as the employer of last resort had made it seem so.

In 1931, after a year of effort, labor leaders convinced the city to appropriate about $10 million to finance emergency public works projects — mostly parks maintenance, street repairs and the like. And in September 1930, the city's established private charity organizations banded together to create an Emergency Employment Committee to coordinate their own emergency relief efforts. Known as the Prosser Committee, it operated for about 10 months before it ran out of money; at that time another, similar group was formed — this one dubbed the Gibson Committee.

The Prosser and Gibson Committees developed a number of innovative projects: garment workers sewed clothing for charity; unemployed artists painted murals, restored church statuary and gave art lessons to children; out-of-work secretaries taught night classes in stenography and clerical work; musicians gave free public performances in the parks. The Gibson Committee even had a project for cobblers and barbers, who were paid to set up stands in the parks. But with a peak employment of 32,312, these committees, like the city government itself, did not come close to fully meeting the unemployment situation. By 1931, despite the middling scale of their relief efforts, both the municipal government and the Gibson Committee were approaching insolvency. Eighteen months after the stock market crash, New York, like every other American community, possessed nothing approaching an adequate response to this unemployment crisis.

It is often argued that the coming of the Great Depression, by shifting the center of American politics, moved La Guardia from the margins to the mainstream. This was true in a way, but La Guardia and other progressives were not simply waiting in the wings with solutions when the crisis struck. They had spent the 1920s engaged in issues such as taxation, farm aid and the outlawing of war; they did not possess a ready-made program for dealing with problems such as unemployment. What



FDR, La Guardia and New York During the Great Depression

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A shantytown encampment in New York City's Central Park, circa 1931.

they did possess was a critical perspective on the American economy, and this enabled them to adapt relatively quickly to the new economic context.

Like many Americans, La Guardia sought to grasp the causes of the Great Depression by puzzling through the basic paradox of want in the midst of plenty: why were people going undernourished in the cities while farmers lived in poverty because of overproduction? He believed that the mechanization of production had initiated a vicious cycle: by displacing workers, it had reduced mass purchasing power; as mass purchasing power fell, consumers were removed from the marketplace; and as consumer markets shrank, more workers were thrown out of work. The fundamental cause of the economic crisis, La Guardia (and many other progressives) believed, was not the advance of technology or greater production in itself; rather it was the fact that the benefits of labor-saving machinery had gone almost entirely to the wealthy. Recovery would come only when the economy was adjusted such that the benefits of mechanized production went to all — not only to those who owned the machinery. "[W]e will never come out of the present condition," he said, "unless we change existing conditions and customs to meet the new methods of production… We cannot stop progress; but the trouble is that legislation has not kept abreast of progress in the sciences, in chemistry, in electricity, in mechanics, in transportation and in other modern methods of production."

La Guardia moved from diagnosis to prescription in a manner that was simultaneously homespun and cosmopolitan. He renewed his call for the development of public power (to drive down utilities rates and destroy what he believed was a powerful conservative lobby) and progressive taxation (to "break up the accumulated wealth of this country," as he put it). After studying the British system of unemployment insurance, he introduced a bill that aimed to "make the dread of starvation and poverty impossible in every American home" by creating an American equivalent. The core of La Guardia's "economic readjustment," however, was the reduction of working hours to create what he called a "spread of employment."

La Guardia also joined a group of senators, led by Robert Wagner of New York, Robert la Follette, Jr. of Wisconsin and Edward Costigan of Colorado, who supported the creation of a large federal public works program and federal grants to the states for the provision of relief. In his opening speech to the 72nd Congress, in December 1931, La Guardia advocated immediate and "substantial" appropriation for relief to be administered through the states and localities.

By the time the 72nd Congress opened in December 1931, many progressives and leftists had coalesced around a common set of policy objectives: public works, federal relief, progressive taxation, public power, unemployment insurance, shorter

Franklin D. Roosevelt addresses economic conditions in his campaign for President, 1932.

working hours, economic planning through a national economic council and some form of parity-price program for farmers. This agenda was defined in opposition to Hoover's voluntarist approach to recovery, and, later, to the investment-side approach embodied in the Reconstruction Finance Administration and President Herbert Hoover's emphasis on balancing the federal budget.

Though he quickly became a leading critic of Hoover's economic policies, Roosevelt's initial efforts in New York mirrored the Republican President's in their emphasis upon voluntary cooperation by business. In the spring of 1931 he created a commission on industrial employment stabilization to conceive of ways for industry to alleviate seasonal unemployment by spreading work on a voluntary basis.

More than La Guardia, Roosevelt ascribed the Depression to a regular, periodic trough in the business cycle—exacerbated, he believed, because it had coincided with a period of technological displacement. As the Depression deepened, he began to view it in more basic terms as a failure in the economic system to match production with consumption. If this was in essence the same problem La Guardia identified as the core of the economic crisis, FDR approached it differently. Whereas La Guardia focused on ways of building mass purchasing power, Roosevelt emphasized planning: deliberate efforts to arrange society and economic production so as to make more efficient use of resources.

Roosevelt's one concrete planning initiative entailed the resettlement of the urban masses to rural areas. High urban land values, tax levels and living costs, he claimed, disrupted the channels of economic distribution, contributing to the systemic breakdown in distribution that led to want amidst plenty. Roosevelt envisioned a government-assisted back-to-the-land movement which would solve the problem of "sociological imbalance" while making available to urban families the moral satisfactions he had known as a son of the Hudson Valley aristocracy. Resettlement would carry urban workers away from the "places where it is most inconvenient and expensive for society to help them," and, with a bit of assistance, establish them in places where they could help themselves.

In 1930, FDR created a Commission on Rural Homes and charged it with "canvassing means for relocating people in the country." By May 1932, he was trying to "place as many families as possible on subsistence farms," the state providing money for rent, tools and seed. A fair number of city dwellers wrote Roosevelt in excitement to inquire about the program, but the plan foundered because of its practical difficulty and high initial cost.

Beyond his resettlement schemes, however, Roosevelt's program for meeting the Depression looked much like the program La Guardia and the congressional progressives were pushing. The key symmetry, at least in the near term, was in the area of relief. Like the congressional progressives, Roosevelt believed that the inadequacy of

Library of Congress

New York City Mayor Fiorello La Guardia pleads for more relief money from the House Appropriations Subcommittee in Washington, DC, January 1939.

existing relief efforts should be addressed by utilizing the spending resources of higher levels of government. Like La Guardia, FDR understood governments as parts of a continuity of social organization, with responsibilities derived from the interdependence of modern society. "The State," Roosevelt suggested in his message urging creation of a state relief program, was "but the machinery through which… mutual aid and protection is achieved." Its responsibilities had been enlarged as society had "grown to a better understanding of government functions" and had come to recognize that there existed no such thing as a "self-supporting man"—"without the help of thousands of others, every one of us would die, naked and starved."

In an age of mutual interdependence, "Modern society, acting through government" owed a "definite obligation to prevent starvation or the dire want of any of its fellows who try to maintain themselves but cannot…not as a matter of charity but as a matter of social duty."

This essentially progressive conception of the state raised questions about the role of governments within the American federal system. What functions properly belonged to local governments? To the states? To the national government? What was and was not the function of government?

Roosevelt sought to answer these questions by invoking the principle of subsidiarity: social obligations, he suggested, should be discharged at the most local level capable of discharging them. If the family or neighborhood could not meet these obligations, they became a responsibility of community organizations; if these should fail, responsibility passed to the local governments. And if local governments should prove unequal to the task, the states should step in. The state government was thus obligated to enter into what had previously been the field of private charity and local government simply because it had been conclusively demonstrated that local institutions alone could not discharge this social duty. State aid came "by a process of elimination, if by nothing else." Extending this principle during the 1932 presidential campaign, Roosevelt suggested that the federal government should act when it became evident that the states and communities could not meet the burden adequately.

In early August 1931, Roosevelt sent a letter to the mayors of each New York city above 25,000 in population asking them to recommend a state relief program so that he "could make plans for it," thereby pioneering a technique he would use during the New Deal of using mayors to validate and support his relief policies. When the state legislature convened in that month, he sent a message recommending a comprehensive state relief program. By the end of August, the legislature had passed Roosevelt's program, establishing the Temporary Emergency Relief Administration (TERA) and appropriating $20 million to reimburse local relief agencies 40% of their expenditures. With this action, New York became the first state in the nation to provide directly for the victims of the Depression.

Easily Roosevelt's greatest achievement as governor of New York, the TERA, in its first year, helped finance work relief for about 48,000 families in New York City and home relief (in the form of food tickets and rent and clothing vouchers) for about 90,000 more. These relatively modest numbers suggest that relief provision remained inadequate prior to the New Deal. But to those laboring in Congress to enact a federal relief program, Roosevelt's accomplishment was notable; and moreover, despite the fact that it was wholly consistent with Hoover's proposition that the localities and states should take the lead on providing relief, Roosevelt's willingness to take action stood out as a counterpoint to Hoover's reluctance to do so. "Congratulations on passage relief measure," he cabled Roosevelt upon the TERA's enactment. "Your constructive program is first governmental step in right direction."

The Depression and Hoover's response to it had put Roosevelt and La Guardia on the same side of the most basic questions of their day—indeed, had made them allies, albeit, for the moment, tacit ones. Before FDR entered the presidency, he told his speechwriter, Adolf Berle, Jr., that he considered La Guardia "one of us, emotionally and ideologically." The party difference would prove powerful enough to keep them apart in the elections of 1932 and 1933; yet already the ideological affinities which would help bind their relationship thereafter were evident. $

Mason B. Williams is a historian specializing in urban politics with degrees from Columbia and Princeton Universities. He lives in New York City. This is his first book.

SUPER POWER

William Woodard and the Last Great Steam Locomotives

By Gregory DL Morris

Even as the first steamships chugged to life, the last great clippers were being perfected. And even as the first jet warplanes and passenger aircraft roared aloft, the last great propeller planes were being fine tuned. And so it was with railroads, even as the first diesel-electric locomotives were being developed, the last great innovation in steam power would better the lives and livelihoods of everyone in North America.

In 1919, the Lima (Ohio) Locomotive Works hired William E. Woodard as vice president in charge of design. In December 1915 the company, perennially third of three major makers, had been recapitalized for the fifth time in its 73-year history. The new owners, businessman Joel S. Coffin and lawyer Samuel G. Allen, immediately started acquiring an all-star team from around the railroad industry.

Woodard graduated from Cornell University in Ithaca, NY, with a degree in mechanical engineering in 1896, two years before American victory in the Spanish War vaulted the country onto the world stage as global economic and military power. In the two decades before he was hand-picked to lead Lima and the railroad industry into a new era, he worked for the two bigger locomotive makers, Baldwin Locomotive Works in Philadelphia and American Locomotive Company, Alco, in Schenectady, NY, outside Albany.

A Hudson 4-6-4 passenger steam locomotive at the head of the New York Central's Twentieth Century Limited, coasting down the Hudson to New York, 1929.

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One of 10 Hudson type locomotives to pull the Twentieth Century Limited between New York and Chicago is pictured after its delivery to the New York Central lines, March 18, 1938.

His many patents, more than 100 by the time he died in 1942, made Woodard a wealthy man in middle age. Nevertheless he worked long and hard, and was respected as much on the shop floor as he was in the board room. In 1938, the Franklin Institute for the Advancement of the Mechanical Arts in Philadelphia considered Woodard for its highest award, the George Henderson Medal.

In his testimonial letter for the award Allen, then president of Lima, wrote of Woodard, "[H]is management of his personal business affairs has impelled me on many occasions to characterize him as the best example of that rare combination of an excellent engineer and sound business man which has ever come under my observation." Woodard was awarded the Henderson Medal in 1940, and the same year was named a Modern Pioneer by the National Association of Manufacturers.

The influence of Woodard and the new team of managers and designers immediately came to bear for Allen and Coffin. Because of federal control during WWI, railroads and engine makers were restricted to existing types. Lima could not build any new designs, but it did build a reputation for fast and powerful versions of the mandated types. By 1922, just two years after locomotive makers and railroads were returned to private control, Lima put all its improvements together into a "super-power" locomotive, the H-10. It was a souped-up version of the H-7 Mikado, the standard mid-sized locomotive of the day with the wheel arrangement of 2-8-2 (two pilot wheels to keep the engine aligned on the track, eight driving wheels and two trailing wheels to support the firebox).

Three years after the H-10 wowed the industry, Woodard's masterpiece was rolled into the sunshine from Lima's erecting shop: the A-1, soon to be famous as the Berkshire — named for the steep, twisting mountains in western Massachusetts that it conquered to show its capabilities. What Woodard had done with the H-10 was to retrofit the best existing technologies in a synergistic way into an existing design — and with a catchy name for marketing, Super Power.

With that proof concept, Woodard took the next logical, but at the time revolutionary, step: designing a locomotive from the wheels up to unleash the full potential of the Super Power concept. Based on the H-10, the A-1's larger firebox required a two-axle,

four-wheel trailing truck, and thus was a new type, the 2-8-4. Under test in the mountains, the A-1 recorded an astounding 26% improvement in key industry performance metrics over even the H-10.

The greatest testament to Lima's achievement is that within a year the two larger makers had dropped their own attempts to make a quantum leap in power and speed, and embraced Super Power. They did not call it that, of course, but the hallmarks of Woodard's concept — a big firebox resting on a two-axle trailing truck and generating great volumes of high-pressure steam — became the industry standard through the end of the steam era, which lasted into the '50s across the country and into the '60s in some areas.

The lasting legacy of Woodard's initiative is that most of the famous steam locomotives that come to mind today are Super Power machines. The Pere Marquette Railroad Berk that was the model for the locomotive in the animated film *Polar Express* is a Lima build. So were the Southern Pacific 4-8-4 Northern types that flashed the famous red-and-orange Daylight Expresses up and down the Pacific coast. So were many of the high-stepping New York Central 4-6-4 Hudsons that powered the legendary Twentieth Century Limiteds between New York and Chicago in just 17½ hours. Many of the historic machines still in steam today are Super Power types, a testament to their efficiency and longevity.

Woodard was born in the small industrial city of Utica, NY, 80 miles west of Albany, on November 18, 1873, just four years after the transcontinental railroad was completed. Straight from Cornell — Ithaca was just 60 miles from Utica — Woodard entered the locomotive business, taking a position in the drafting room at Baldwin. From Baldwin he moved to a smaller builder, to a shipyard and then to the big Schenectady Locomotive Works in 1900.

The company became part of Alco the following year, and in 1907 Woodard was detached to take charge of the technical investigation of an accident on the New York Central. The Central, built by Cornelius Vanderbilt, was one of the two major carriers in the Northeast and fierce rival of the Pennsylvania Railroad, which had been closely affiliated through interlocking directors with US Steel for decades. In 1872, US Steel named its then biggest new complex after Edgar Thompson, president of the Pensy.

The Central was a major customer of Alco, and the railroad's own investigations into the derailment of two electric locomotives and their train with great loss of life were inconclusive. Woodard's inquiry centered on the locomotives' trucks (the assemblies that hold the axles and pivot to allow the train around curves) and their adhesion to the track. He followed his report by developing a new design for locomotive trucks that was quickly adopted by most railroad and locomotive makers. Will Woodard had arrived. The truck design was used on the Pennsylvania Railroad's sleek GG-1 electric locomotives first built in 1935; the last GG-1 was finally retired in 1983.

When Woodard joined Lima, conventional thinking of the day dismissed feedwater heaters, trailing-truck boosters and firebox improvements as "jewelry," fancy and expensive but unnecessary. And, indeed, on their own each one enhanced performance only marginally. Woodard's insight was that a locomotive designed for efficiency from the ground up to integrate the extra equipment rather than just bolt it on, could be both powerful and fast.

Thus girded, Lima took on the two big boys. Imagine an upstart company challenging Boeing and Airbus with a new line of jets. Or indeed some new entrant trying to horn in on the current duopoly in diesel-electric locomotives between General Electric and ElectroMotive Diesel. There are, of course, other aircraft and train makers. But none seriously challenge the two top dogs.

Time was of the essence for Lima. WWI had already shown how useful the tractor trailer rig was. Railroads were already competing with fast highway freight, and some were already experimenting with diesel and electric locomotives in varying combinations. Before Super Power, locomotives could be fast, or powerful or efficient. Draft horses are not race horses. The strongest machines, often in pairs or triples, lugged long coal drags over the mountains at 10 mph. And even the expedited freights only averaged 25 mph, 35 mph at best. Passenger traffic moved about twice that.

But Super Power whisked both passengers and mixed freight at 80 mph. With it, the railroads could beat the highway haulers' fast freight. The most famous "varnish," as named passenger trains were known, could cook along at an average of 100 mph — that is a steam locomotive spinning out 80% of the top speed of Amtrak's Acela "high-speed" Northeast Corridor trains today. And that same Super Power locomotive could also move long coal trains, not at 80 mph, but at several times the speed of previous locomotives — and use less fuel and water doing it.

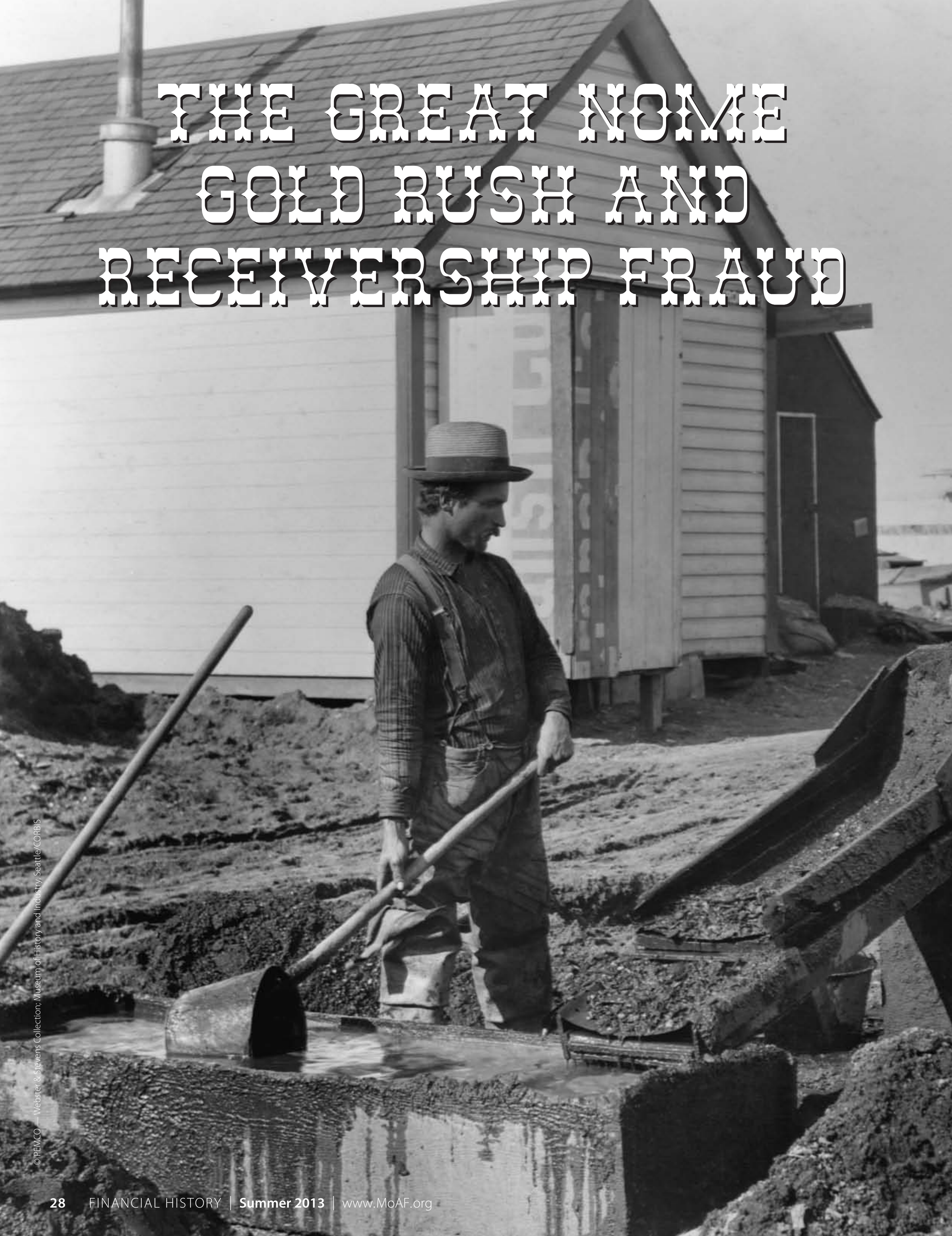
Good as Super Power was, the technology alone could not protect Lima from larger forces, especially the Great Depression. Railroads had stopped buying new power, no matter how wonderful, and by 1934 Lima had laid off all but skeleton administration. Coffin died the next year, but in the midst of its sorrows Lima at last received new orders. Daylight came in 1936, when Southern Pacific placed its first order for fast passenger engines. After that it was off to the races with big orders for major railroads and important new designs. Those culminated in 1940 with the heaviest and most powerful steam locomotives ever built, the humongous 2-6-6-6 Allegheny type for the Chesapeake & Ohio Railroad.

To speed, strength and economy Lima engines added longevity. In 1929, Lima delivered a batch of engines to the Nickel Plate Road. Some of those locomotives were still in commercial operation well into the 1950s. That is almost 30 years of service, the last decade of it head-to-head with diesels. The last Lima steam locomotive rolled out of the shop on May 13, 1949. Nickel Plate Berkshire, No. 779 stands today in Lima's Lincoln Park. The last NKP steam locomotive in mainline service was also a Lima-built Berk; No. 740 left the road's Calumet, IL, yard en route to the cutter's torch on June 20, 1958.

Woodard did not live to see the end of steam at Lima. He died of heart failure on March 24, 1942, just as his machines were doing their most important work, speeding troops and war material from the arsenal of democracy to Atlantic and Pacific ports.

Lima did not fare well in the diesel era. The modern locomotive has a diesel engine or "prime mover," that is not connected directly to the drive wheels but to an electrical transmission. The engine turns a generator that powers traction motors attached to the axles. Street cars, subways and intercity electric locomotives also use traction » *continued on page 37*

THE GREAT NOME GOLD RUSH AND RECEIVERSHIP FRAUD



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By Ron Hunka

In September 1898, two Swedes and a Norwegian in a patched-up scow found themselves battling stormy weather in the Bering Sea along the Seward Peninsula on the western coast of Alaska. Like many individuals of the time, the 1897 Klondike gold rush in western Canada had brought them to the North in search of wealth. Although inexperienced miners, the men were sufficiently astute to search for a place that was not already overrun by gold seekers. Subsequently, the three set out for a river valley about 100 miles northwest of Council City, AK, a mining town where they had met by chance a month earlier and had become discouraged with local mining prospects. Rumor had it that some individuals had found traces of gold in the distant river valley.

After a few days of battling headwinds in their stopgap vessel, the three men put ashore, about 30 miles short of their destination, at the mouth of a waterway, which they named the Snake River for its winding course. Waiting for a change in the weather and making the best of the happenstance which had brought them to this place, the men panned for gold along a series of five creeks that flowed into the river. In those creeks, despite the men's prospecting naiveté, they struck gold. Of the five streams, all of which had deposits of the precious metal, the one they named Anvil Creek proved so richly endowed as to transform their lives.

Ultimately, the trio — Jafet Lindeberg, Eric Lindblom and John Brynteson, thereafter called the "Three Lucky Swedes" — though one was Norwegian, filed 43 claims for themselves and 47 others for family and financial backers in the most productive parts of Anvil Creek. Their chance discovery eventually made them wealthy and precipitated one of the greatest gold rushes in American history.

The Grass is Always Greener

When news of the claim filings reached the Council City area, about 60 miles from the Nome mining camp, many gold seekers abandoned their efforts there and headed for Nome. With the arrival of warmer weather in 1899, rainbow-chasers who had not found gold in the Yukon also lit out for Nome. The problem was that, by this time, the original discoverers of the Anvil Creek gold deposits held what amounted to a virtual lock on the small area with its incredibly rich deposits.

Of the approximately 3,000 people who had taken up residence in Nome by July, it is estimated that 1,000 of them were broke. These were individuals who had "bet everything on striking it rich, and had lost it all." Forlornly, on the beach at Nome, they pitched their weathered tents and wistfully wondered if their turn would ever come.

For those who had struggled mightily and found nothing, it was human nature to resent the good fortune of the inexperienced "Swedes." As a result, many of the Americans, in their desperation, latched on to a popular, but legally incorrect, view that the claims of non-citizens, such as they presumed the Swedes to be, were invalid and, thus, still in the public domain and open to filing. (Ironically, two of the so-called three Swedes were naturalized American citizens, and the third had taken steps to become one.) By this time, any claim that had been filed by an alleged alien had been "jumped" or had had multiple claims filed against it.

The richest disputed claims, as noted, were those on Anvil Creek, and, for the most part, they belonged to the Pioneer Mining Company, owned by the Three Swedes, and the Wild Goose Mining and Trading Company. Wild Goose was owned by Charles D. Lane, an experienced miner and millionaire investor who had legally purchased three claims on Anvil Creek from Laplanders.

Representing the interests of the opponents of the two mining companies was the law firm of Hubbard, Beeman, and Hume, which was working toward invalidating the non-citizens' title claims in court and earning a 50% contingency fee for doing so.

As the mood in Nome grew uglier by July 1899, the discontented miners opted to become a law unto themselves by holding a mass meeting in which they intended to declare all mining claims in Nome invalid and open to re-filing. However, when an Army lieutenant from nearby Fort Davis heard about the plan, he stepped in with a small contingent of soldiers to break up the meeting and head off large-scale civil disorder and violence. Afterward, as a precaution, the Army also banned wearing firearms. About the time

A prospector sifts dirt for gold in a water trough on Front Street in Nome, AK.

the situation in Nome seemed most desperate, something completely unexpected transpired.

The Poor Man's Paradise

Although it was known that the sand of the beaches along the Seward Peninsula contained traces of gold, it was not until July 1899 that it occurred to one or more perspicacious miners, whose names are unknown, to pan Nome's beach. Though all the claims in Nome up to this point had been located inland along the creeks behind the town, the sand of Nome's alluvial beach proved to be richly sprinkled with gold nuggets and dust at depths of one to four feet.

As the exciting news spread locally, intense panning along the beach revealed that the gold nuggets spread out for many miles along the coast in both directions from Nome. Several things made the Nome gold rush particularly attractive.

First, the town was on the coast and could be reached by ship, obviating overland trekking. Second, the gold on the beach could be collected with relative ease, and last, due to a land office ruling, claims could not be filed in a 60 foot-wide tidal zone along the beach. Therefore, the gold panned there belonged to whomever found it, and consequently, apropos to its easy, unrestricted pickings, Nome became known as the "Poor Man's Paradise."

At first, people outside Alaska found the stories of gold on the beaches of Nome too fantastic to believe. However, when the last ships out of Nome preceding the winter of 1899 reached Seattle, the residents there saw for themselves that people from Nome had in their possession thousands of dollars in gold dust and nuggets. It was roughly estimated that in 1899 the beaches of Nome had produced $1-2 million in gold, while the creek claims produced almost $1.5 million.

Gold Fever

In the spring of 1900, when the ice packs in the sea lanes to Nome began to break up, the rush was on. Some 50 to 60 ships set sail across the 2,300 mile distance from Seattle to the Alaskan town with the golden beaches. Most of these ships departed in May or June. Although there was still dangerous sea ice, each captain was under pressure to find his way through the ice packs to be among the first to reach Nome. Some of the largest ships were passenger liners loaded to maximum capacity with freight and gold seekers. These vessels included the *Ohio* with 706 passengers, the *Centennial* with 639, the *Oregon* with 604, the *Roanoke* with 575, the *Victoria* with 500 and the *Senator* with 499. One of these passengers was Alexander McKenzie, a North Dakota and Minnesota political boss who had been attempting to enrich himself through corrupt political maneuvering in the US Senate related to the gold fields of Nome. All told, about 11,000 people travelled to Nome from Seattle via ship in 1900. Some came from San Francisco as well.

Upon arrival in Nome, as there were no trees within 100 miles, many of the passengers were forced to live in tents, take refuge on boats or even sleep on the ground. Along the beach, hundreds of tents stretched out for roughly 30 miles. Although estimates of Nome's population at the time were as much as 20,000, the 1900 census reflected a lesser figure of 12,488, about three times the size of the city today.

Arriving at the zenith of the gold rush, a British newspaper correspondent, Elizabeth Robins, noted that tents came down almost to the edge of the water on the congested beach. Elsewhere, the available beach space was stacked with all sorts of freight, including bags of beans and flour piled higher than her head, lumber and barrels of beer and whiskey. Back on the tundra, there was bedding, blankets, furniture, pots and pans, and all sorts of mining equipment, such as gold rockers — the cradles for washing gold from sand or gravel. Surveying the scene, Robins wrote that the whole thing was "as odd a conglomeration as ever an eye rested on."

The Best Laid Plans of Alexander McKenzie

McKenzie, who in North Dakota was known as the "Senator Maker," was well-connected in Washington all the way up to his friend President William McKinley. In the Nome gold rush, McKenzie had recognized an opportunity to exploit the alien mining claims to his advantage. In the winter of 1899-1900, before going to Nome, he laid his plans. First, he clandestinely formed a syndicate, the Alaska Gold Mining Company, of which he was the majority stockholder. Two of his partners were Senator Henry C. Hansborough of North Dakota and Senator Thomas H. Carter of Montana.

Under consideration in the United States Senate in 1900 was the Alaska Civil Code. One of its provisions, modeled after an Oregon law, extended to aliens the same rights as US citizens to acquire and own property. Through McKenzie's collaborators, Hansborough and Carter, he proposed an amendment to the legislation which would retroactively invalidate claims filed by aliens.

Nonetheless, after an ugly and hotly-contested debate on the Senate floor, an alliance of senators, including Knute Nelson of Minnesota, a native of Norway, and William Stewart of Nevada, under the influence of Charles D. Lane, owner of Wild Goose Mining, forced the withdrawal of the McKenzie amendment. Yet, despite this significant setback, the cunning McKenzie was not done.

In its final form, the Alaska Civil Code legislation, which passed on June 6, 1900, included provisions for three new federal judgeships. Due to the bare-bones federal structure in frontier Alaska, these positions had broad authority, and McKenzie therein saw an opportunity. Employing his vaunted political influence, he persuaded President McKinley to appoint a Minnesota attorney, Arthur N. Noyes, McKenzie's friend and crony, to the judgeship for the Second Judicial Division, which included Nome.

Paradise Lost

Shortly after McKenzie and Noyes, traveling together, arrived in Nome on July 19, McKenzie called at the law offices of Hubbard, Beeman, and Hume. There, he made it clear that Judge Noyes was under his control. If the firm had any hopes of successfully pursuing its clients' claims in Noyes' courtroom against Pioneer Mining, Wild Goose Mining and others, he threatened, it had best turn over its interest in the jumped claims to McKenzie's Alaska Gold Mining Company for shares of stock. Outmaneuvered, the law partners did as they were told. Greedily, McKenzie also forced the three attorneys to give him a 25% share in the law firm.

Next, McKenzie instructed Hubbard, Beeman, and Hume to bring actions before Judge Noyes on the Anvil Creek claim titles owned by Pioneer Mining, Wild Goose Mining and others, contesting their

ownership. While the judge pretended to deliberate over the merits of the rightful ownership of the claims, he ruled that a receivership must be established to protect both parties in claims disputes. He then appointed McKenzie as receiver of the claims and barred the original owners from access to their property, equipment and possessions.

In the meantime, as planned, McKenzie ordered his men to proceed with mining gold from the claims. He was said to have stolen thousands of dollars in gold per day from some of the claims and to have entirely depleted others.

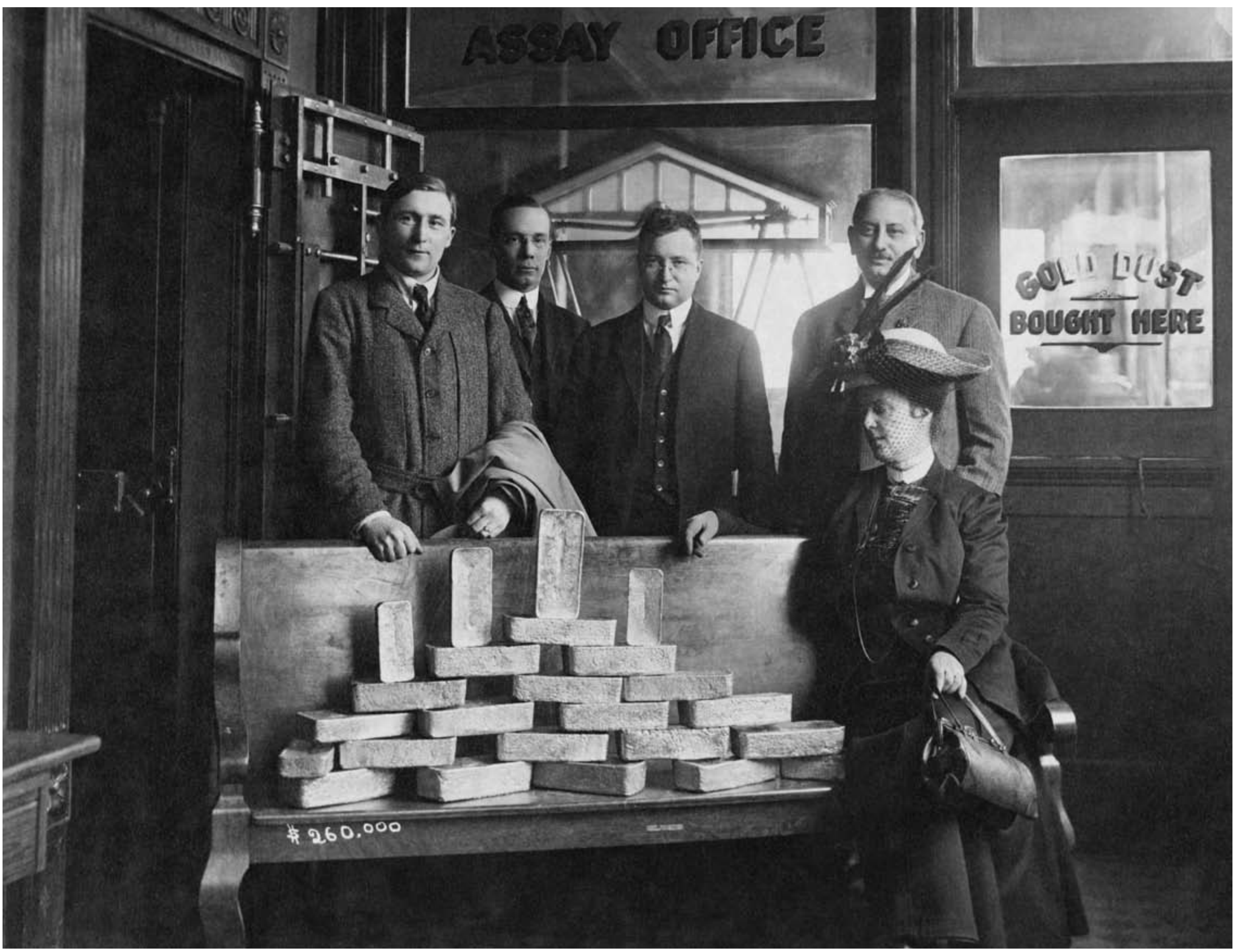
Attorneys for Pioneer Mining and Wild Goose Mining fought back with motions to have McKenzie disqualified as administrator and the receivership dissolved. Predictably, Judge Noyes denied the motions. Recognizing that there was no justice to be gotten for their clients in a Nome courtroom, the attorneys carried petitions to the faraway Ninth Circuit Court of Appeals in San Francisco.

In the latter part of August, Judge William Morrow, in the appeals court, found that Noyes had exceeded and abused his authority and ordered the Nome mining claims injunctions lifted. At the same time, he removed McKenzie as receiver and ordered him to return everything he had confiscated.

On September 14, when Judge Morrow's orders arrived in Nome, McKenzie's plans were only briefly derailed. Sizing up his position, he arrogantly concluded that he was too powerfully connected in Washington to be brought down. In the end, he simply ignored Morrow's decision and continued mining the gold. At this point, both sides in the dispute armed themselves for the expected hostilities. A group of armed men from the Pioneer Mining Company even forced McKenzie's men from some of the Anvil Creek claims.

While the Army stepped in to prevent wider violence, attorneys for the Pioneer and Wild Goose companies set out once more over the considerable distance to San Francisco bearing the news of McKenzie's defiance. On October 15, two US marshals from San Francisco, dispatched by Judge Morrow, arrived in Nome with a warrant for McKenzie for contempt of court. That morning, the marshals found him at breakfast at the Golden Gate Hotel, where they arrested him.

In 1901, McKenzie was convicted of contempt and sentenced to one year in prison in California. However, he served only three and a half months before his friend, President McKinley, pardoned him for health reasons — though he lived for another 20 years. Reputedly, McKenzie had stolen » *continued on page 37*



People pose around a pile of gold in an Alaskan assay office, 1914.

Lloyds Banking Group Archives

CASH BOX

A Brief History of Cash Dispensers and the Accompanying Revolution in Retail Banking

By Bernardo Bátiz-Lazo

From humble and uncertain beginnings nearly 50 years ago, the automated teller machine (ATM) and its associated technology are now ever-present in our daily lives. The invention of the ATM was a true societal revolution, as banks on both sides of the Atlantic had been trying to find alternatives to the brick and mortar branch since the interwar period. Automatic cash dispensing appeared before credit and debit card payments became popular alternatives to cash, so the ATM revolutionized provision by allowing after-hours access to bank deposits at a time when most people worked in a cash economy.

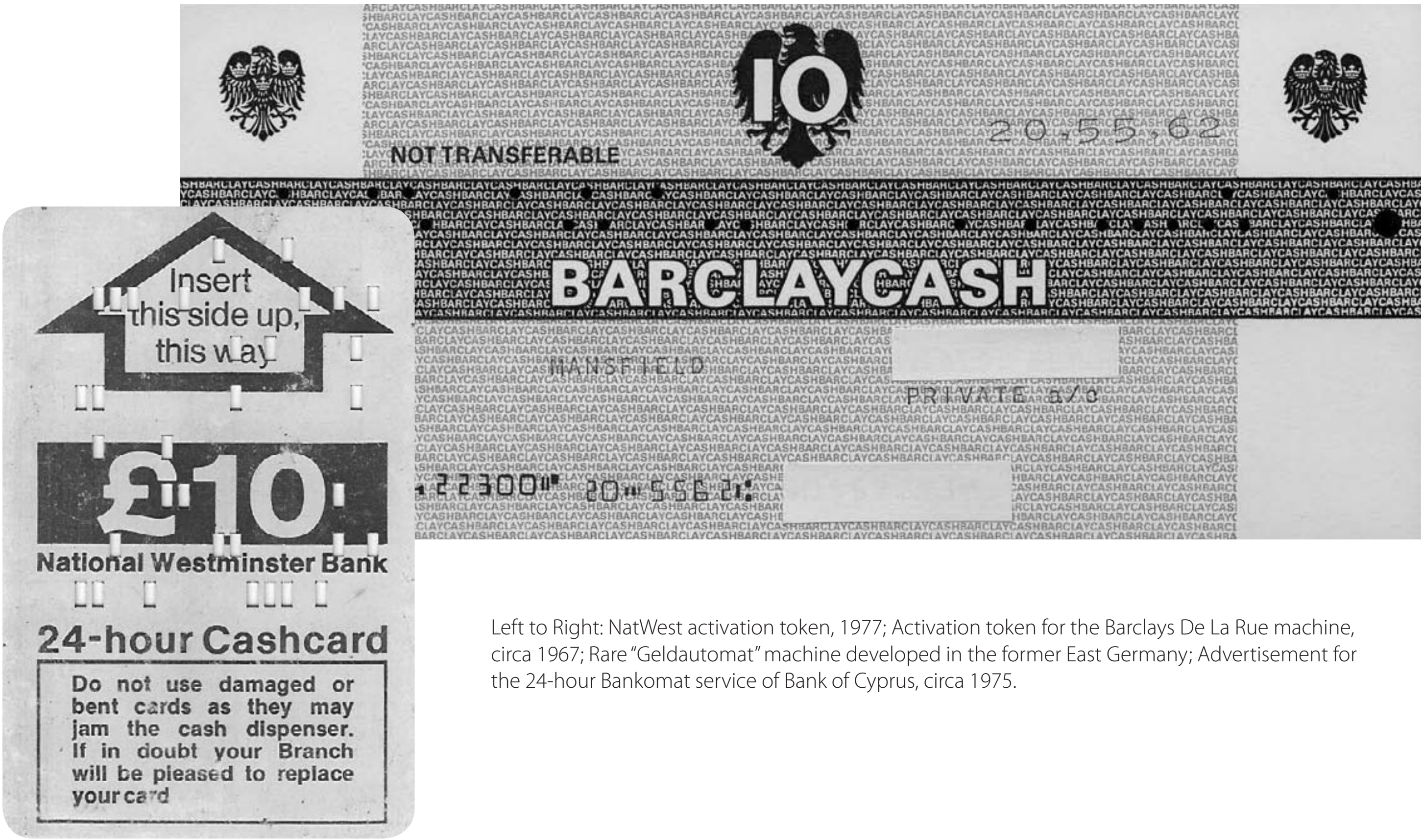
Cash dispensing machines resulted from a long chain of innovations rooted in the implementation of self-service devices in gas stations, supermarkets, ticketing systems and vending machines in the 1950s. The first cash machine was a little-known device developed in Japan in the mid-1960s, but the most successful early deployments took place in Europe. There, bankers responded to increasing unionization and rising labor costs by soliciting engineers to develop a solution for after-hours cash distribution. This resulted in three independent efforts, which all saw the light of day in 1967: one in Sweden (Asea-Metior and the Swedish savings banks' Bankomat) and two in Britain (De La Rue and Barclays' Barclaycash; Chubb and Westminster Bank's Chubb MD2).

There was no single inventor of the ATM, but active collaboration between groups of bankers and engineers to overcome significant challenges. For instance, never before had electronic equipment been put to the test of the weather, with fluctuating temperatures and precipitation. Early ATMs were all standalone, clunky, unfriendly and inflexible devices. They could do only one thing: dispense cash when activated by a token. Operation was highly unreliable, and there were no standards. Some banks would keep the token in the machine and return it to the customer by post once the account was debited, thereby limiting the frequency of the ATM's use.

Queen Elizabeth at a Lloyds Bank Cashpoint ATM, 1974.

Barclays Group Archives

Advertisement for the Barclays DACS, circa 1967.



Barclays Group Archives

Left to Right: NatWest activation token, 1977; Activation token for the Barclays De La Rue machine, circa 1967; Rare "Geldautomat" machine developed in the former East Germany; Advertisement for the 24-hour Bankomat service of Bank of Cyprus, circa 1975.

By 1971, other manufacturers operated in Britain (Speytec-Burroughs), the US (Docutel and Diebold) and Japan (Omron Tateishi), while devices had also been deployed across Europe (Switzerland, Spain, France, Germany and Denmark) and Canada.

Shortly after, a first big judicial ruling in the US determined that Chubb and Diebold had engaged in anti-competitive practices (1976). A second ruling in 1981 gave Chubb the overall preeminence of its patents on the codification of the personal identification number (PIN). And a third, decided by the US Supreme Court in 1984, declared that the ATM was not subject to regulation limiting geographic growth.

At the time, however, there were two major limitations to the future prospects of the device. The first was that cash machines would only work within proprietary networks; that is, tokens of the local bank would only activate for that bank and, in some cases, only that bank location. This was to change with the advent of encryption keys and the Message Authentication Code (MAC), which ensured that messages had not been tampered with while in transit between the ATM and the financial network. These innovations then enabled shared networks that would be accessible to everyone.

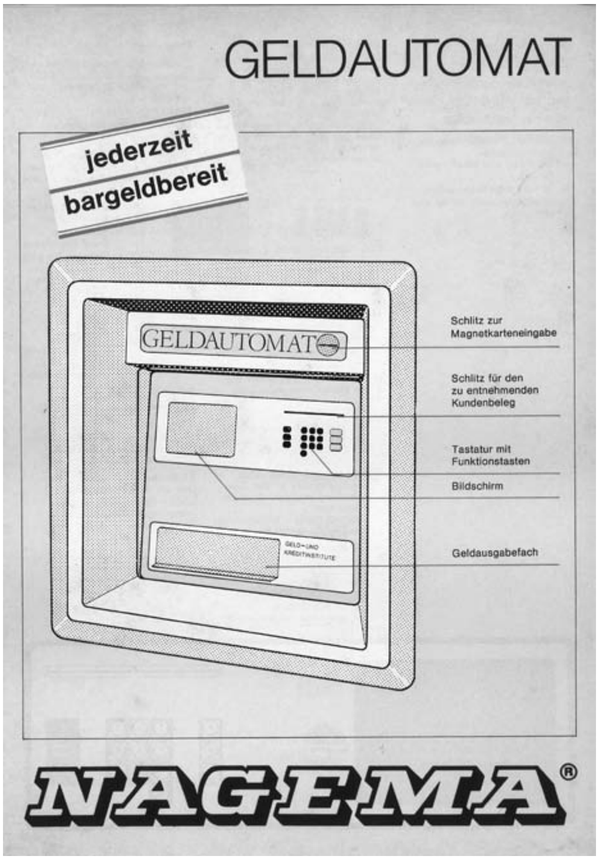
The second most important success factor was the advent of online authorization. Security was understandably a paramount concern of bankers who had to ensure that the right person debited the account at the point of the transaction. In the early years, however, cash machines operated offline either as stand-alone devices or by transmitting information to update central records once a day through dedicated telephone lines or links to mini-computers in large branches.

The shortcomings of offline operation were soon exploited by hackers. For instance, in Sweden over the Easter weekend of 1968, someone went up and down the country using a stolen ATM card in different machines, which was not discovered until the holiday was over. In the mid-1980s, people in the US used Commodore C64 personal computers to manipulate the magnetic strip of banking cards, driving from ATM to ATM to withdraw money. Online authorization put an end to this, saved the ATM business model and gave rise to a fault-tolerant computer system that still dominates the card payments market today.

The development of online communication with the central computer became the overriding concern early on, and the work of IBM was integral in this area. It started with the first online trials in Sweden in 1968, which were promptly followed by the deployment of an online device in the UK for Lloyds Bank in 1972. Throughout most of the 1970s, IBM engineers worked to develop the rails, pipes and standards upon which other elements of the payments ecosystem (such as credit cards and point of sale terminals) would eventually depend on.

In the early 1980s, pioneers such as Chubb, De La Rue, Docutel and Asea-Metior exited the market, as they failed to keep up with developments in computing and electronics. Others, such as Burroughs, had not achieved critical mass. Citibank had effectively abandoned possibilities to commercialize devices of its own design (called CAT-1 and CAT-2) and instead continued deploying them throughout its global proprietary network until the 1990s.

This was not the case with IBM, which had the marketing muscle, engineering expertise and business contacts to take over the market. However, in a strange twist of



Lars Arevidson

Bank of Cyprus

fate, the company decided to deploy new machines: the IBM 4731 and related IBM 4736 series. These were incompatible with previous models, particularly the otherwise successful and widely-deployed IBM 3624 cash machine.

Many banks evaluated the new IBM and refused to buy it because, in a stroke, IBM would make obsolete and redundant significant capital investments made by a large number of banks. Worldwide sales of the new machines were quite low, and banks began to purchase from other vendors. Consequently, IBM decided against further investment in payment technology, thus abandoning possibilities to capitalize on its R&D and subsequent patents in chip-based activation tokens (now popular in many countries).

Around this time, two Ohio-based companies, NCR and Diebold, were developing technology that would enable them to effectively dominate the ATM market for the next two decades. As a result of the IBM 4731/4736 fiasco, NCR built market share upon software that emulated the IBM 3624 on its own devices and grew to become a leading world supplier of ATMs.

Meanwhile, IBM and Diebold formed a joint venture in 1984, called InterBold. It aimed to leverage Diebold's self-service technology with IBM's global distribution system. In spite of growing sales, the joint venture ended seven years later, as Diebold had not achieved the breakthrough it hoped for in the international market. For IBM, the joint venture failed to produce expected returns partly because developments elsewhere had invalidated its strategy to link ATMs to expensive mainframe computers.

Capitalizing on deregulation and banks' diversification across retail markets, NCR and Diebold were instrumental in turning the cash dispenser "dinosaur" into today's sleek, multi-functional ATMs. The companies' innovations included new, customer-friendly video-display units; programmable buttons alongside the screen; a shift toward dispensing cash horizontally, which reduced jams; and a growing menu of options, including money transfers and balance inquiries.

But NCR and Diebold were not alone. Growth in the number of banks deploying ATMs across the world brought about an increase in the number of manufacturers. These included big names such as Honeywell in the US; Phillips, Olivetti and Siemens-Nixdorf in Europe; and others based in Asia such as Fujitsu, GRG, Hyosung and Hitachi.

Growth in demand attested to consumers overcoming initial reluctance to actively engage with the technology. Large European banks developed proprietary networks in the thousands of ATMs, while US banks found shared networks (and associated interconnection fees) attractive. At one point there were more than 200 different networks in the US, all servicing an increasingly mobile population.

At a local level, advances in the functionality of the ATM freed staff at retail banking branches to engage customers in higher-value services, such as insurance, mortgages and stock market trading. ATMs thus demonstrated that there were alternative distribution channels to brick and mortar branches. They became the backbone of the payments system and opened the door to telephone and Internet banking. In this sense, ATMs enabled the explosive growth of retail finance during the last decades of the 20th century.

ATMs, however, remained a significant capital investment expense to operate. In spite of innovations with modular manufacturing and its associated reduction in service costs and improved reliability (as

the machine could continue to work when facing a small mechanical failure), the location of ATMs also remained expensive. The use of dedicated telephone lines limited them largely to bank branches or high volume non-bank locations, such as busy train stations and large airports.

This was to change with the advent of digital telephone service and the introduction of Windows as the core of the operating system. The ATM then effectively became a terminal of the bank's central computer, enabling key operating functions, such as remote diagnostics and integration with credit card clearing networks. A side effect was the elimination of the need for a dedicated activation token.

Meanwhile, in the mid 1990s, Mississippi-based Triton and Texas-based Tidel introduced lighter and cheaper machines. Not only did they require a much smaller capital investment, but they also had a lower cost of operation, as one of their characteristic advantages was contacting the bank computer only when activated by the transaction (as opposed to dedicated telephone lines, which remained in permanent contact). Triton and Tidel, therefore, were instrumental in the creation of a new market segment populated by non-bank independent providers, also known as Independent ATM Deployers (IAD), including machines located in off-bank premises such as grocery stores, railway stations, universities and casinos.

Renewed growth in the deployment of ATMs in Europe and North America in the late 1990s resulted from the advent of IADs together with the integration of local ATM networks with the international network of Visa and MasterCard, as well as greater use of the debit card as activation token. More recently, growth in terms of deployment is located in China and, to a lesser extent, Africa, Eastern Europe and the Gulf states. Not surprisingly, growth in the number of vendors, deployers, merchants and suppliers of ancillary services across the world led to the creation of a trade association in 1997 called ATMIA, which now hosts annual conferences in the US and Europe.

Today, PIN numbers are used in libraries, for online purchases and at self-service check-outs in supermarkets, illustrating how a solution for an industry-specific device has now spread to several aspects of everyday life across the world.

Furthermore, integration of ATM networks means people can travel nearly anywhere in the world with just a plastic card in their wallets, confident they will have access to their balance in local currency in places as far afield as Hong Kong, the pyramids of Giza or the streets of Paris.

Some machines act as Internet kiosks, while others aim to move forward and integrate with mobile devices. Yet for all of the possible new uses, after-hours cash dispensing in 30 seconds remains at its core. $

Bernardo Bátiz-Lazo is Professor of Business History and Bank Management at Bangor University in Wales. His publications on the history of payment systems include Cash Box: The Invention and Globalization of the ATM *with Tom Harper. He may be reached at b.batiz-lazo@bangor.ac.uk.*

Educators' Perspective

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His grandson, Conrad Kohrs Warren, took over the ranch in 1932 and continued to operate it until the 1970s. Warren wrote that his grandfather "was one of the few cattlemen who was able to retire with a fortune intact."

When none of Warren's children expressed an interest in running the ranch, he sold it to the National Park Service, which continues to run the ranch using many of the same ranching techniques that were employed in the late 19th century. The ranch is open to the public and offers visitors a glimpse into the early days of one of America's most important agricultural businesses. $

Dr. Dan Cooper is the president of Active Learning Technologies. Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board.*

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Super Power

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motors. Indeed, streetcar companies used to be called traction companies.

Lima had diversified into construction cranes and power shovels. But it had no internal combustion technology and no electrical technology. General Machinery Co. of Hamilton, OH, did have the powerful and well-known Hamilton engine. Lima bought General in October 1947, changing its name to Lima-Hamilton. LH struggled on using Westinghouse traction motors. Then LH bought Baldwin out of bankruptcy and became Baldwin-Lima-Hamilton in 1950. At that point, locomotive manufacture at the Lima shops ended as production was consolidated at Baldwin's works in Philadelphia.

BLH kept up the fight, but when Westinghouse left the traction business in 1953, the game was up. BLH completed its last locomotive, a diesel-electric for the Pensy, on September 11, 1951, just two years after that last Berkshire rolled across to the Nickel Plate yard. BLH was itself acquired by Armour & Co. in 1965. Greyhound bought Armour in 1980 and spun the crane and lift business to Clark Equipment. That company ended all production at the Lima shops, and no longer survives itself.

The South Lima property has moved through several owners. The last ruins of the Lima Locomotive Works were demolished in 1998. All that remains are the company archives at the California State Railroad Museum in Sacramento.

But Super Power lives on, not just in the memories of the Twentieth Century Limited or the Daylight Expresses, and not even in only vintage excursion steam. Although not a Lima engine, The Union Pacific's 4-8-4 No. 844 is a classic example of Super Power technology, and it is the only steam locomotive never to have dropped from the roster. It has remained in service with the UP since Alco delivered it in 1944. $

Gregory DL Morris is an independent business journalist based in New York. He is principal and editorial director of Enterprise & Industry Historical Research, and is an active member of the Museum's editorial board. He can be contacted at gdlm@enterpriseandindustry.com.

Nome Gold Rush

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over $600,000 in gold from the claims under his receivership. Belatedly, in 1902, President Theodore Roosevelt removed Arthur Noyes from the bench. Nonetheless, neither McKenzie nor Noyes was ever prosecuted for the receivership fraud they had perpetrated.

Although some lesser gold mining continues in Nome to this day, by the end of 1900 the gold deposits on the beach at Nome had played out. After only a few months, most of those who came in search of riches departed disappointed. Many of them had come with little money, probably with visions of harvesting gold nuggets on the beach. In the end, the US government, via Army transport, had to ship hundreds of these destitute individuals, "like wartime refugees," back to Seattle.

Although the Nome gold rush had made some wealthy, it was less beneficent to thousands more — those who might be characterized in the words of the Klondike poet, Robert Service, as persons "never meant to win." $

Ron Hunka, a freelance writer who lives in Austin, Texas, has previously written articles for Financial History *on notorious Texas scammers including agricultural charlatan, Billie Sol Estes (who died on May 14, 2013 at 88), Frank Sharp, principal in the Sharpstown stock-fraud scandal, and James Bowie, the legendary and deceitful frontiersman.*

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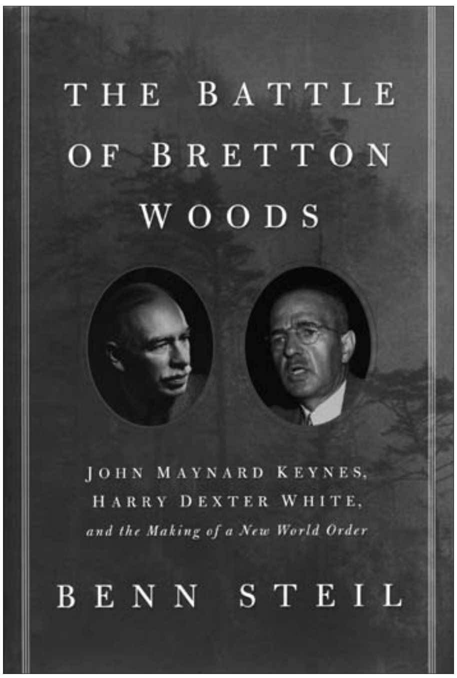
The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order



By Benn Steil
Princeton University Press, 2013
449 pages with photographs, notes, bibliography and index

What if some of the most powerful and smartest people got together and tried to set up a new system of international commerce and finance? Could we usher in a new era of cooperation that could ameliorate global tensions on these issues? In 1944, with WWII still raging, that is what Britain and the US attempted at a New Hampshire resort hotel called Bretton Woods.

You would think the story of an "economic conference" would be pretty dull — technocratic, bureaucratic, heavy on the math. But in *The Battle of Bretton Woods*, author Benn Steil gives the back story on the conference that narrates more like a high stakes poker game. At the table is the first modern economist "rock star" playing against another economist who turns out was spying for the Russians. Oh, those crazy economists!

Steil focuses on Britain's predicament as WWII entered its final stages. The pound had been the "currency" of pre-war international trade and finance, with London as its geographic center. Britain's policies had reflected both its national and its wider colonial interests and ambitions. But as the war took its toll, Britain had limited financial firepower to bring to bear on the debate on post-war finances. For all intents and purposes, it was broke, with extensive obligations to the US.

The US, on the other hand, was at a zenith in its international prowess, having provided the resources needed to finalize victory. The Treasury Department had no intention of returning to the pre-war, British-led set-up. Instead, it envisioned a more transparent system that would lead to freer trade and eliminate currency manipulation and trade barriers as sources of conflict. This was idealism, yes, but tempered by the certainty that the US would play the dominant role in any new construct. And if Britain ended up being taken down a couple of pegs, well, so be it. In 1942, the US called for work to begin on a new post-war trade and finance system.

Steil adds needed spice to the story by going into depth on the professional and personal profiles of the two economists assigned to work out the details. Leading the charge for the US was Harry Dexter White, son of a Boston peddler, who had an unusually fast rise at Treasury in the late 1930s. White had no doubt he was the smartest guy in the room; he was difficult and abrasive.

Who better to play the British hand in all this than the world's most famous economist: John Maynard Keynes? We all know of Keynes as a theoretician (for good or bad), but he was also a very savvy market speculator, as well as a seasoned British government official and negotiator. Keynes believed in his own and Britain's preeminence in these matters.

The sometimes angry interplay between Keynes and White is a large part of the story. Steil goes a bit far in describing the details of Keynes' broader economic thinking, which had little to do with how he negotiated.

Setting up the Bretton Woods conference took more that two years of back and forth between White, Keynes, their bosses and staffs. They painstakingly created systems and institutions like the IMF and the World Bank aimed at stabilizing trade and currency relations. By the time the 700 or so delegates from 40 countries gathered on July 1, 1944 for the conference opening, the final hands had been played. White and the US Treasury had insured that the dollar would be the world's dominant currency in a post-war world.

The two principal players in the Bretton Woods story would not live to see whether their dreams actually worked. Always in fragile health, Keynes would die in his sleep in 1946. White would die in 1948 in a blaze of loyalty accusations that swirled until the 1990s.

The phrase "Bretton Woods" has taken on mythical status, shorthand for a US-led, post-war economic system of stability, certainty and progress. Just last year, Chinese banking officials called for a "new" Bretton Woods approach to recent global trade and currency clashes.

But did Bretton Woods actually work? Here is Steil's most thoughtful contribution to the discussion. Technically, only parts of the Keynes/White construct operated as planned. Countries continued to use trade and currency approaches to advance national interests.

However, Bretton Woods did change a lot about how the world looks at trade, commerce and currency. At the very least, conversation on these topics was changed forever as a result of Bretton Woods, becoming more multi-national and more transparent. $

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

TRIVIA QUIZ

By Bob Shabazian

1. The price of a postage stamp was recently raised to 46 cents. What was the price in 1918?

2. What merger, announced early in 2013, would create the world's largest airline?

3. How high did interest rates go during the years 1979 through 1987?

4. What milestone occurred on December 15, 1886 at the New York Stock Exchange?

5. What company later became Hershey Foods?

6. "Odd-lots" refers to what kind of trading in the stock market?

7. What entity purchased the New York Stock Exchange in 2012?

8. The Dow Jones Industrial Average dropped 5% following President Barack Obama's victory in 2008. What were the one-day post election drops following Franklin D. Roosevelt's win in 1932 and Harry Truman's in 1948?

9. In 2012, Superstorm Sandy forced a two-day shutdown of trading on the New York Stock Exchange. What other weather condition resulted in a two-day closure of the NYSE?

10. What do Mary Schapiro, Elisse Walter and Mary Jo White have in common?

1. Three cents. **2.** American Airlines and US Airways. **3.** 21.5 %. **4.** First million-share day. **5.** The Lancaster Caramel Company. **6.** The execution of orders ranging from one share to 99 shares. **7.** The 12-year-old Intercontinental Exchange (ICE), based in Atlanta, GA. **8.** 4.5% and 3.8%, respectively. **9.** The Blizzard of 1888. **10.** All are linked to the Securities and Exchange Commission. Schapiro is a former chairman, Walter is the present SEC chairman, and White, a former US Attorney for Manhattan, has been nominated by President Obama to head the agency.

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